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ECONOMIC AFFAIRS

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16 October 1981

CHINA REPORT ECONOMIC AFFAIRS

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NATIONAL POLICY AND ISSUES

FUJIAN ECONOMIC ACHIEVEMENTS OUTLINED

Fuzhou FUJIAN RIBAO in Chinese 28 Aug 81 p 3

[Article by Xin Shimin [2946 1102 2404] and Gu Deqi [7357 1795 3823]: "Correctly Recognize Fujian's Economic Achievements."]

[Text] In the 32 years since the founding of the People's Republic of China, under the leadership of the Party, our Fujian Province has made enormous achievements in socialist transformation and socialist construction. It is evidence of the superiority of the socialist system and a foundation for our continuing advancement.

Fujian's important achievements in socialist construction in the past 32 years are: First of all, the victorious completion of the socialist transformation of the ownership of the means of production and the basic realization of public ownership of the means of production. We established and developed a socialist economy making the socialist publically owned economy absolutely dominant in the entire national economy. In 1979 the proportion of gross value of production of Fujian's agriculture was: Nationally owned units--state farms, forest, animal husbandry and fish farms--made up 2.72 percent, various forms of collectively-owned economies made up 78.5 percent. These two occupied 80.77 percent, the other 19.23 percent being sideline production of commune member households. Second, industry, agriculture and other sectors of the national economy had a certain material and technical foundation. In 1952 the original value of fixed assets in Fujian was about 30 million yuan. By 1980, Fujian's investment in capital construction was 10.3 billion yuan and newly increased fixed assets in various sectors of the national economy was 6.8 billion yuan. Of this, the original value of fixed assets in state owned industry had already reached 4.960 billion yuan which is a 165-fold increase relative to the early post liberation period. In agriculture in 1980 the area of fields irrigated was over 13 million mu and the area ensured of stable yields in spite of drought or excessive rains was 6.28 million mu. Before liberation, the rural areas were almost entirely without agricultural machinery, chemical fertilizers and electricity, but by 1980 they already had over 70,000 tractors (overall), 680,000 horsepower in irrigation machinery, used 1.8 million tons of chemical fertilizer, and rural electricity consumption had increased to 640 million kwh. Third, there were clear increases in the output and productivity of material production sections of industry, agriculture and communications and transportation. Comparing 1980 with 1952, food grain output increased from 7.4 million jin to 16 million jin, which is more than double; output of oil crops of peanuts, sesame seeds and rapeseed increased from 1.97 million dan to over 2.63 million dan, an increase of over 30 percent; output of sugarcane increased to over 60 million dan which is a five-fold increase over 1952; numbers

of live pigs on hand increased to 6.87 million, an increase of 3.36 million over 1952. Raw coal increased from 3,000 tons into 4.63 million tons, output of electricity increased from 12 million kwh to 4.9 billion kwh an over 400-fold increase. By 1980, industries that came into being were: Steel, output to 240,000 tons, cement, to 1.55 million tons, chemical fertilizers to over 1 million tons and 130,000 sewing machines, over 27,000 bicycles, 23,900 tons of cotton and silk, and over 13,500 tons of chemical fibers. After liberation railways were constructed, air routes were opened, highway transportation was developed and communication and transportation increased. Fourth, there were great increases in the province in science and technology, culture and education and in public health. For the past 30 or more years, Fujian has trained nearly 70,000 university, college and graduate students, the number of institutions of higher learning have increased from 9 to 16 and the number of college and university, middle-level vocational school, regular secondary school and elementary school students has increased several tens of times over; a group of scientific and technical research sections have been established and by the end of 1979 there were more than 100,000 natural science and technological personnel in the province. Finally, the people's standard of living has clearly improved. In 1980, Fujian workers' average salary was 703 yuan, of which the state-owned workers' average salary had more than doubled over 1952. According to analytical estimates from relevant sections, in 1979, the net income each commune member received from the collective and his individual enterprise was over 140 yuan, which is a 1.3-fold increase over the 60 plus yuan received in 1950. Discounting for price inflation, the standard of living of the people of Fujian has clearly improved.

Fujian's achievements in economic construction in the past 32 years are not only something with which old China could not compare, but would be outstanding in a world-wide survey. Of course, Fujian's path of economic construction has not been a smooth one. The first eight years the economy recovered and expanded very quickly and in the period 1952-1957, gross value of industrial and agricultural production increased by 10.4 percent annually, and the average wage of employees in state-owned enterprises increased 36 percent. However, after this, due to a long period of "leftist" ideological influence, things were not done strictly according to objective laws, in the guiding direction there was a desire for quick results and in strategic targets there was an impetuous advance which created a proportional imbalance in the national economy, the economic structure was irrational and economic results could not be improved. But seen overall, comparing the achievements and shortcomings in Fujian's economic work in the 32 years since the founding of the People's Republic of China, the achievements are still important. Of course, if there had not been these mistakes, Fujian's economic construction could have made even greater achievements. If we further carry out the readjustment direction and proceed from the situation in Fujian, walk a new road of low investment and good results, people can really benefit and Fujian's economy can improve as fast as it can.

The conditions for Fujian's economic development are superior, the central authorities have adopted special policies and flexible measures for Fujian, so if we lack confidence in Fujian's modernization, there will be no grounds for pessimism and disappointment. But hoping for quick victories, and thinking that we can work wonders in a short period of time is also unrealistic. We should have lofty aspirations and high ideals and revolutionary enthusiasm, as well as do what we are capable of, proceed in an orderly way and gradually and analytically realize the Four Modernizations.

NATIONAL POLICY AND ISSUES

ECONOMIC ISSUES IN FIRST HALF OF 1981 REVIEWED

Beijing GUANGMING RIBAO in Chinese 6 Sep 81 p 3

[Article by Dong Fureng [5516 6534 4356]: "Commentary on Certain Questions in Economics in the First Half of the Year."]

[Text] In the first half of the year China's economists have deliberated certain questions and we would now like to comment briefly on deliberations concerning several of these questions.

I. The Strategy of China's Economic and Social Development

Since the beginning of the year, economic circles, economists and science and technology circles in the capital, with the collective support of some units, have held three conferences on the strategy of economic and social development and discussed the strategy of China's economic and social development. The discussion has been based on examining China's past strategy of development, in comparing the strategy of development of other countries, and has taken as its point of departure the general mission of realizing in the Four Modernizations.

Up to now, the deliberations have tended to emphasize the question of the strategy of development of China's economy and society. During the deliberations, everyone has discussed the negative consequences brought on by China making national industrialization, rapid economic growth and increases in certain goods (such as steel) the targets of development strategy for a long time and proposed making the people's basic needs the target of development strategy. Related to this, they also proposed the question of short-, medium- and long-range targets for China's socialist modernization, including in particular the specific content of the "comfortable society" to be achieved by the end of the century. People also have a rather uniform understanding of the targets of development strategy necessary to change China, i.e., shifting the targets of development strategy to satisfying the people's basic needs. However, there has been no in-depth discussion of the specific content of the people's basic needs and the indicators of the stages (especially, the end of this century) of socialist modernization.

The development strategy of China's agriculture received rather more attention in the deliberations. This is not only because of the important role which agriculture plays in the goals of the development strategy of satisfying the basic needs of the people, but also because the widespread implementation of systems of responsibility, which link remuneration to production, has presented a series of new problems to China's agricultural modernization.

Formulations of strategy for economic and social development must be geared to China's basic national conditions. The in-depth study of national conditions has already begun to receive serious attention from a variety of areas. However, to study national conditions in-depth from the perspective of the need to formulate strategy of development still requires a great deal of work.

Seen from the perspective of the present situation, the discussion of the question of economic and social development strategy has far from really started. Many questions have either barely been touched or not at all touched, for example, a solution to the excess of agricultural population, the disparity and trends in income between strata and resident collectives in the economy, the choice of an import-export strategy, the choice of a technology policy, the utilization of foreign capital, etc. It can be expected that these questions will attract more economists to participate in the discussion and that more research results will emerge.

Because of differences in social systems, different developing countries should have different development strategies, but developing countries also have many common problems which must be resolved, therefore, in development strategy there are places where they can borrow from each other. This has important significance as reference for comparative research on various countries' development strategies and for formulating China's development strategy, and this work is still in a very weak state. Also, in addition to the independent research we have carried on ourselves, the experience and lessons of choice of development strategy by various countries, the introduction and absorption of the useful results of developmental economics abroad is also necessary.

II. The Forms and Structures of China's Ownership of the Means of Production

In the process of correcting the leftist guiding ideology in economic work and carrying out reform of the economic system, the forms and structures of China's ownership of the means of production are undergoing profound changes and these changes must have a far-reaching and lasting influence on China's economic development. Thus this has become a question of extraordinary concern to economists. There are many topics here for us to deliberate. The year before last, people were paying attention to city and town collective ownership and this led to the convening of a conference on the theory of city and town collective ownership in January of last year. Then people turned even more attention to the forms of rural collective ownership (the question raised by implementing the various forms of the system of responsibility which links remuneration to production), the restoration and expansion of city and town individual ownership, joint-management ownership, Chinese-foreign joint capitalized ownership, etc., and the question of the structure of the ownership of the means of production at China's present stage which came from this. This led to this year's March-April forum on the question of the ownership of the means of production at China's present stage. Around the time of this conference, the press published a great many articles related to this topic.

Deliberations on the forms of socialist public ownership is a big advance for China's political economists in the theory of ownership. From many years of experience and lessons in the changes in public ownership of the means of production, people feel that socialist public ownership (whether national ownership or collective ownership) does not exist in any fixed pattern or form and that there is not any one socialist public ownership system which is suited to the circumstances of special productive forces and thus there is not any one socialist public ownership form which can forcefully promote the development of productive forces. We must find

forms of socialist public ownership which are suited to different productive forces' situations. Political economy's research on the question of socialist ownership cannot stop at "generality of socialist public ownership" but must combine productive forces with further study of the forms of socialist ownership. In recent years the broad peasants and employees have made a great many creations in this area. Workers in economic theory cannot treat these creations from the perspective of maintaining fixed patterns, but should investigate them from the perspective of theory.

People have already achieved a common view of the question of the structure of ownership of the means of production at China's present stage, which is mainly that under the condition that the socialist ownership has absolute dominance, a variety of economic elements and managerial forms can coexist. There has already been some discussion on the basis, quality, position, function and development trends of various forms of ownership and the relationship between them, but still they await in-depth study. In view of the present situation there still is not fully scientifically based proof of the level and quality of productive forces which are suited to the systems of ownership. This is inseparable from our long term overlooking of study concerning the question of productive forces. It is still not easy to overlook studying systems of ownership separately and what deserve attention in particular here is the question of the ownership system produced by agriculture after carrying out the various systems of responsibility which link rewards to production (especially after fixing farm output quotas for each household and assigning responsibility for a task until its completion, the ownership produced after state-owned enterprises in "substituting taxes for profits, independent accounting, being responsible for profit and loss" including the question of whether or not state-run enterprises can carry out responsibility for profit and loss and carry any significant responsibility (for profit and loss), ownership produced by joint state-private management, etc. Ownership produced by privately collected funds and private capitalism requires even more careful treatment. Individual ownership is also a big question (such as hired labor, tax revenue) must be studied to provide a theoretical basis for formulating appropriate policy.

III. Economic Readjustment and Overall Balance of the National Economy

Since 1979 China has been carrying out a readjustment of the economy and although some accomplishments have been made in readjustment, the anticipated goals have not been achieved and there is an enormous latent crisis in China's national economy. This year the Party and nation decided to carry out a rectification of the national economy, the short-term goal being to eliminate financial deficits and achieve a balance of revenue and expenditure; to stop financial issues and achieve a credit balance; to control inflation so that prices would maintain basic stability. Under the circumstances for the past half year, economics and economists have had rather extensive deliberations on this question of the readjustment of the national economy. The Conference on the Theoretical Question of the Overall Balance of the National Economy which was convened in January of this year, was held under the guidance of implementing the direction centered on readjustment.

The deliberations on this economic readjustment, apart from summarizing the lessons and experience of history, stressed an analysis of the factors which caused the present economic difficulties and created the enormous latent crisis in the economy. Discussion was conducted related to the idea that "deficits are not harmful" in

an attempt to adopt deficit financing to stimulate economic development. The economic thinking of Comrade Chen Yun received serious attention in the discussion. People are once again discussing the ideas which Comrade Chen Yun proposed long ago in the late fifties concerning the balance of finance, credit and material resources and the idea that scale of construction should be suited to national power. The discussion was carried out in combination with present circumstances and this is significant. However, it should be said that there is still not much written on the question of the balance of the three and there is nothing which goes beyond the theoretical depth of the writing of the sixties.

In discussing economic readjustment, discussing a new path for developing socialist economy which is suited to China's national circumstances is very significant. This can be seen as a constituent element of the discussion on the question of development strategy of China's economy and society. Related to this question is the study of how China's economy can get out of the current predicament so it will gradually get into a better cycle. Along with the readjustment of the economy, especially contraction of the scale of capital construction, many industrial sections, especially heavy industry (particularly metallurgy and machine building) find themselves in a very serious bind. Great amounts of productive capacity have become idle, much useful goods and materials are overstocked, the pace of economic development has dropped, the activity of entire economic movements has been reduced and if we are to extricate ourselves from the present predicament, in finally carrying out readjustment so that the economy will become active, idle productive capacity and stagnant goods and materials can be put back into the economy, still is a major problem before us which we must exert ourselves to address.

In the question of the national economy's overall balance, discussing the question of developing local superiority, balancing the local economy and coordinating the local balance and the national balance, we are farther ahead than in the sixties, but we are only beginning and need to go deeper.

IV. Reform of the Economic System

In recent years China has achieved some preliminary results in the experiment at reforming the economic system. This year we will set about the further readjustment of the national economy. Under these circumstances, the series of questions produced by the reform of the economic system must be answered theoretically. For example, how should the reform work on the economy system in the first period be evaluated? Is there a relationship between the serious difficulties which appeared in the economy and the experiment at reform of the economic system in the first period? How should the preliminary results in the reform of the economic system be consolidated in the period of readjustment? How should reform be conducted to benefit readjustment? How to manage the relationship of planning and the market, the relationship between centralized management by the central authorities and developing local and enterprise initiative, the relationship of the interests of the state, enterprise and employees and the relationship of the central authorities to the local areas, etc.? The Conference on the Question of Theory and Practice in Reforming the Economic Management System which was held in April of this year, discussed some of these questions. Some questions were discussed in the Press. Although there has been extensive theoretical discussions of the question of reform of the economic system and there have been many breakthroughs (seen from the perspective of thought liberation), it should be admitted that there are a great many questions which await resolution in theory and in practice. Creating models which are suited to the notion of a socialist economy in China's national circumstances is still an important topic which lies before us.

This is a question concerning the general direction of the reform of China's economic system. In the new economic system, how to combine planning and the market is still a question which requires continuing discussion. In the preliminary experiment at reforming the economic system, in the process of expanding enterprise initiative some questions have already been asked in various aspects of the reform of the economic system (such as the planning system, taxation system, pricing system, financial system, etc.). The question of reforming the various system parts of the economic system to make it a whole, still needs exploration. The question of the leadership system within enterprises has also been raised. In the period of economic readjustment, apart from consolidating existing achievements and continuing with some new experiments, because of the restrictions of subjective and objective conditions, reform of the economic system cannot be carried out comprehensively. But in this period, making conscientious theoretical preparations is absolutely necessary.

In the most recent period, with the inspiration of implementing in the countryside the system of responsibility linking rewards to production, some industrial commercial and service enterprises have begun to try out various forms of the economic responsibility system, from being responsible for profit and loss and responsible for a task until it is completed to contractual management, deserve our close attention and careful deliberation, and we need to devote particular attention and discussion to the relationship between forms of the economic responsibility systems and the future comprehensive reform of the economic system.

V. The Question of Economic Effectiveness

In correcting the leftist guiding thinking in economic work, in the process of readjusting the national economy, the question of economic effectiveness has become a question people are paying attention to and attention to economic effectiveness is an important element in the new road of economic development suited to China's national situation which we are following. The Conference on Theoretical Questions of Economic Effectiveness which was held in March of this year was held under these circumstances.

There has been continuous discussion of the question of economic effectiveness in recent years. For the past six months, in addition to continuing to summarize the historical lessons and experience in economic effectiveness, emphasis has been placed on discussion combining it with readjustment of the economy.

In the period before the 3rd Plenary Session of the 11th Meeting of the Central Committee of the CCP, new impetuous advances in economic work did enormous damage to China's economic development. People studied the question of economic effectiveness brought on by the new rash advance from the perspective of economic structure, scale of capital construction, choice of projects, use of foreign capital and importation of technology and drew the necessary lessons.

In the preliminary experiment at reform of the economic system, the lack of complete systems in the economy and reform and some incautious methods produced a problem of some sections and units only paying attention to microeconomic effectiveness and ignoring macroeconomic effectiveness. Stressing macroeconomic effectiveness and uniting it properly with microeconomic effectiveness has become a matter of great concern. There have already been some articles on this.

The question of the relationship of developing local superiority and improving the macroeconomic effectiveness of the entire economy, which appeared in the process of local areas pursuing comprehensive self-sufficiency and promoting their strengths while avoiding their weaknesses in developing local superiority must be studied.

Study of the question of economic effectiveness has always been weak. Seen in terms of the present, apart from continuing to strengthen research on basic theory related to the question of economic effectiveness it is necessary to concentrate our efforts on studying and scientifically evaluating the system of norms and indicators of economic effectiveness and correspondingly propose a complete set of integrated evaluation methods and at the same time combine it with feasible research on some topics to raise the method and theory of economic effectiveness to a new height.

In the first half of the year there have been some developments in basic theoretical questions of political economy, the question of productive labor and nonproductive labor is an example. There is research on other important questions of economic theory, but here we will not go into them one by one.

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ECONOMIC PLANNING

MANAGEMENT METHODS CAN IMPROVE BUSINESS ECONOMIC RESULTS

Beijing QI'N GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 4, 19 Jul 81 pp 10-13

[Article by Liu Yuanzhang [0491 3293 1728], research worker at System Science Research Institute, Chinese Academy of Sciences: "Improve Business Management for Better Economic Results"]

[Text] The main purpose of the economic readjustment and restructuring now going on in our country is to improve the economic results in production, construction, and various economic spheres. An enterprise should actively take the initiative to improve its business management and strive for better economic results in meeting the requirements of the "eight-character [readjustment, restructuring, consolidation, and improvement], policy" with readjustment as the central task.

I. Implications of Economic Results

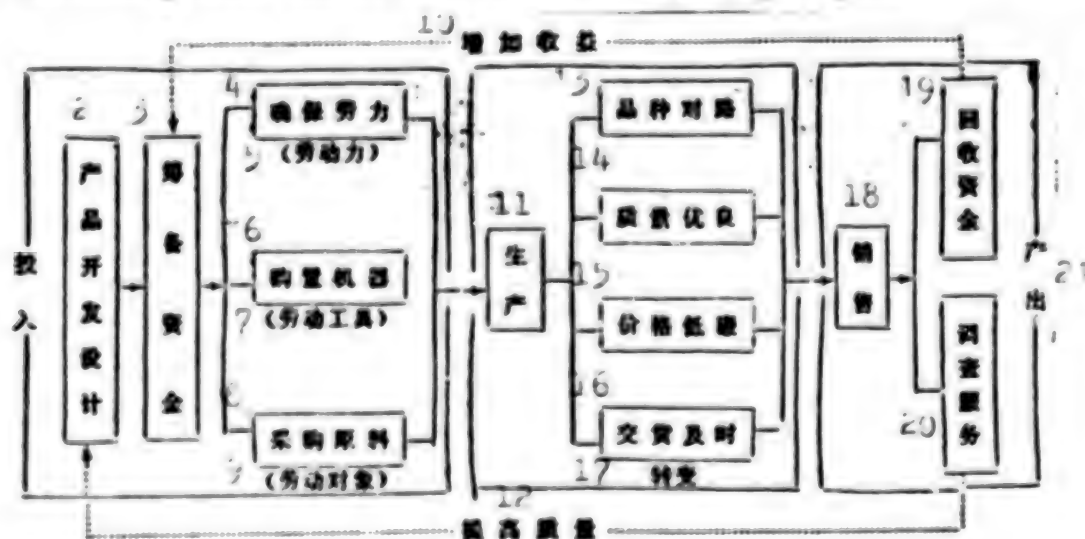
Generally speaking, all productive and business activities of an enterprise are included in the "input-conversion-output" cycle. Input (or putting in) means the investment of the required manpower, money, and materials which, after physical, chemical, or biological treatment of the mechanism of conversion, become finished products as output (or production). So-called production means the input of manpower, money and materials to be converted into finished products having newly added value from labor. These products will become commodities through circulation and be sold on the market. Their value will then be realized. The economic results of an enterprise are the proportionate relationship between input and output, as expressed by this formula: $\text{Economic results} = \text{output} \div \text{input}$. If the value of output divided by input is 1, it means that the value created by labor is sufficient to maintain simple reproduction. If the value is less than 1, it will mean that labor has been wasted and that even simple reproduction will be impossible. Therefore, the value must be greater than 1 before additional social wealth can be created, before the enterprise can carry on expanded reproduction, before the people's livelihood can be improved, and before socialist construction can be served.

Recently, the central government decided that inland enterprises should learn from their coastal, mainly Shanghai, counterparts; this decision was made as an important economic strategic policy decision for the purpose of achieving an overall improvement of economic results. Shanghai's overall economic results are actually much better than those of other places. In Shanghai, the annual output value for every 20 billion yuan's worth of fixed assets was as high as 60 billion yuan. If other

factors are not taken into account, the ratio between output and input is $600/200$
 $600/200 = 3$. This 3 is the index for the measurement of economic results. In 1979, the total industrial output value in our country was 459.1 billion yuan. In 1980 it increased by 8.7 percent and amounted to 499.2 billion yuan. Rounded off to 500 billion yuan, this is about the same as the original value of fixed assets of all industrial enterprises throughout the country. In other words, if we divided the total industrial output value by the value of the total fixed assets used as input, the average economic results in the country expressed by the result can only be 1. If, however, industrial economic results throughout the country were as high as those of Shanghai, the total industrial output value for that year would have been 1.5 trillion yuan. If we add to this figure another 200 billion yuan of agricultural output value, the combined industrial and agricultural output value would be 1.7 trillion yuan, which would work out to a per capita income of 1,700 yuan, or 1,000 dollars. Then the people would be able to live in "relative comfort."

II. Relationship Between Business Management and Economic Results

How can we produce better economic results? First, we must improve the quality of enterprises. Consolidation of enterprises means improvement of their quality. Enterprises must have vitality before the national economy can flourish. If the quality of an enterprise is too poor, it can never become active, no matter how many external conditions you may create for its improvement. If, for example, a person has stomach trouble, you cannot expect him to do much work, even though you feed him with good food. If an enterprise has good quality, it will be able to increase the value in the continuous input-output cycle and add to its profits. The cycle of increasing value can be seen from the following diagram:



- | | |
|------------------------------|------------------------|
| Key: 1. Input | 12. Improved quality |
| 2. Design for production | 13. Suitable products |
| 3. Fundraising | 14. Good quality |
| 4. Guaranteed labor | 15. Low price |
| 5. Labor | 16. Timely delivery |
| 6. Purchase of machinery | 17. Conversion |
| 7. Tools of labor | 18. Sales |
| 8. Purchase of raw materials | 19. Return of funds |
| 9. Object of labor | 20. Service inspection |
| 10. Increased benefits | 21. Output |
| 11. Production | |

From the above diagram, it can be seen that this type of increased value is created by labor in the process of production, and the created value can be realized only through circulation. If there is only creation but no realization, then an increase in value cannot be accomplished and economic results cannot be attained. Therefore, while on the one hand we consider methods to create value in the field of action, we should, on the other hand, realize value through circulation in the market. Both input and output, at the two ends of the diagram, are connected with the market, while the intermediate transformations all take place in the field of action. To improve economic results, we should consider the market in the light of both input and output, and [consider] the field of action in the light of the mechanism of conversion. Consideration of the market means mainly the formulation of a business strategy, or a business policy decision; consideration of the field of action means stressing management tactics, or management behavior. Strengthening the quality of enterprises in fact means stirring up business strategy ideas and increasing the power of management tactics among enterprises.

III. On Business Strategy

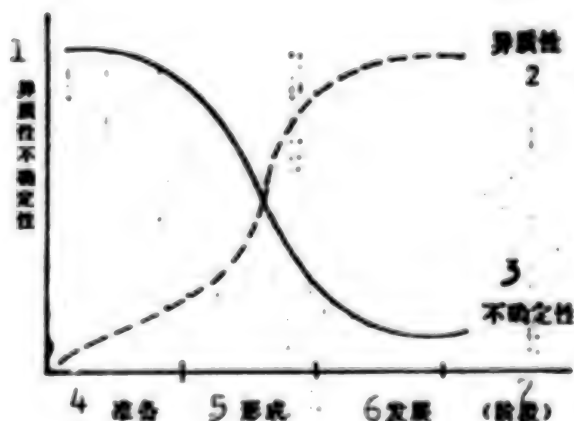
Business strategy means deciding on the long-range objectives of an enterprise and on the necessary action to be taken in attaining these objectives, in addition to working out a series of policy decisions. The work of directing enterprise activities is called basic strategy, while that of directing enterprise functions is called functional strategy. Basic strategy consists mainly of the following three types:

1. Optimum development strategy. When an enterprise is engaged in the production of many different final products or in many forms of activities, it is necessary to consider the means of distributing or utilizing the enterprise's business resources (or funds) in order to ensure optimum benefits. Therefore, it is necessary to analyze many aspects of products--such as the rate of increase of sales, the place they occupy in the market, the sequence of changes they undergo, and so forth--in order to determine the optimum plan for the distribution of business resources. This is called the optimum development strategy. The regulating conditions and target functions required for the mathematical planning in resource distribution are all decided by this type of distribution planning. Apart from the above-mentioned points, we should also consider social needs, state policies, international conditions, and other factors in deciding on the target of optimum development strategy.

2. Multiple-undertaking strategy. While the product mix and the organizational structure are being readjusted, we should consider the question of adding new varieties to the product mix. As for the organizational structure, we should consider the question of integration in various forms. The main orientations are:
 1. To develop within a field that is related to the original market, such as development from the production of men's garments to the production and marketing of women's garments.
 2. To develop production of goods with their original strongpoints into production and marketing of related goods. For example, the present diesel engines are well received by tractor-assembly plants. We should take advantage of the strongpoints of this production technique and production management to produce accessories for diesel engines, such as power generators and air compressors. By this means we will not only make better use of the original strongpoints of diesel engines but also help raise their quality and lower

production costs through the production of related goods and from information on their quality as reflected by the market. (3) To develop in the direction of serial production or raw-material and secondary-processing departments. Serial production here does not mean serialization of specifications but should include products of different types. For example, textile mills originally producing only grey can also engage in printing and dyeing; camera plants can develop the production of projectors, electronic computer equipment, and so forth. (4) To develop new products and new fields by making use of existing business resources and people's intellectual power. For example, a transistor plant can utilize its technical personnel to develop the production of goods used for solar energy.

In choosing a form of multiple-undertaking strategy, we must consider the elements of uncertainty and difference in character. There necessarily are risks for enterprises in business management caused by the element of uncertainty in enterprise activities. Difference in character means the complex nature brought about by the change from a single line of business to multiple-undertaking. Therefore, in working out a multiple-undertaking strategy, we must carefully weigh the increased effects of the difference in character and the reduction of benefits caused by the risks inherent in uncertainty, strike a balance between the two, and choose the better one. We should also consider the different stages of multiple-undertakings, as shown in the following diagram.



- | | |
|---|----------------|
| Key: 1. Difference of character and uncertainty | 5. Formation |
| 2. Difference of character | 6. Development |
| 3. Uncertainty | 7. (Stage) |
| 4. Preparation | |

3. Strategy of withdrawal and change. During the readjustment of the industrial structure, product mix, or organizational structure, a given enterprise may unavoidably be "closed, suspended, amalgamated, or converted." This calls for a full investigation and analysis. On the one hand, we should look at the enterprise itself and find out the causes, the mistakes made, and the symptoms of trouble that may have led to the need for a strategy of withdrawal and change, on the other hand,

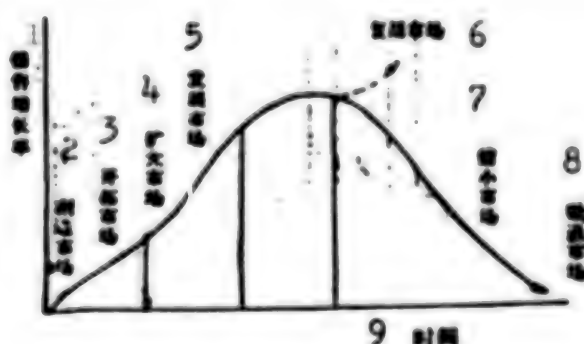
we should also look at the external factors and find out the causes and problems—such as reduced market demand; increased raw material prices; intensified sales competition, which contributes to the cutting of selling prices; slow progress of technical innovation, which weakens competitive power; surplus production, which has led to a surplus of equipment; pressure from other enterprises; the demands or policy of new production and the change to new fields; difficulties in turnover of funds; rising interest rates; and so forth. Based on an analysis of these two aspects, we can work out a strategy of withdrawal and change.

This strategy of withdrawal and change is not intended as a measure for dealing with the aftermath of business failures. On the contrary, it serves to prevent business failures. In the course of consolidation, we hope to do more in amalgamation and conversion and less in closure and suspension. In short, we must study the situation of the enterprises about to be closed or suspended and find out the various factors leading to such necessity, so that we can provide better directions in the future. We must not summarily attribute everything to the readjustment now going on.

IV. On Functional Strategy

Enterprise activities are usually carried out in several departments, and each department has its own function. These functions sometimes share a common foundation with the whole system and sometimes have special characteristics of their own. Therefore, when an enterprise already has had a general business strategy, there should still be at least a functional strategy for the principal departments. Proceeding from a desire to improve economic results, we can consider the functional strategy in relation to such matters as raising product prices, joining the scramble in the market, accelerating the turnover of funds, reducing the burden of interest payments, and lowering production costs; then we can divide the strategy into the following parts:

1. Sales strategy. Since output value has to be realized in the market, sales are therefore also in need of a strategy. There should be an assessment and analysis of the rise and decline of commodities in the market, as shown in the following diagram.



- | | | |
|------|---------------------------|----------------------------|
| Key: | 1. Rate of sales increase | 5. Developing the market |
| | 2. Creation of a market | 6. Reactivating the market |
| | 3. Pioneering in market | 7. Shrinking of market |
| | 4. Expansion of market | 8. Withdrawal from market |
| | | 9. Time period |

According to this analysis, different sales planning should be worked out at different times, such as plans for training salesmen, advertising in the press and broadcast media, setting up sales centers, exhibition and sales on an experimental basis, consignments, sales commission, opening up enterprises for public inspection, strengthening postsales service, and so forth. Furthermore, in conducting an analysis according to the above diagram, we should classify the goods into daily necessities, articles for daily enjoyment, daily substitute items, daily luxuries, daily indulgences, and so forth and use the rise and decline of their sales as the basis of our study. At the same time, we should also base our study on the competitive power of the enterprises themselves and adopt market sales policies accordingly. For example:

		5	6	7	8	9
		扩大	限制	缩小	转移	创造
竞争地位	强	○				○
	中		○	○	○	○
	弱		○	○		○

Key: 1. Competitive power
2. Strong
3. Medium
4. Weak
5. Expand

6. Restrict
7. Reduce
8. Change
9. Create

For any type of commodity and any type of market, a sales strategy should ultimately be based on the following marketable goods of fine quality; smooth marketing channels; aggressive salesmanship, and rational sales prices. Therefore, a sales strategy is possible only with the support of the departments concerned.

2. Production strategy. This only means complete rationality, elimination of waste, lowering of consumption of raw materials and energy, and cutting of production costs in every possible way. This should be considered in the light of the following factors:

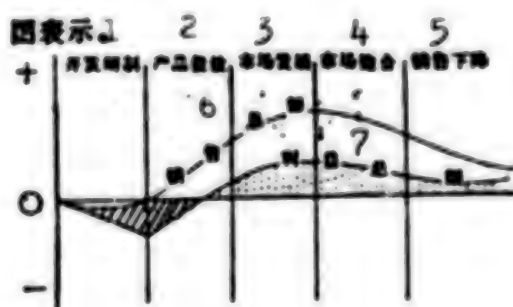
(1) Plan for lowering production costs. This is based on the basic business strategy. During the design stage, a shortcut to the lowering of production costs can be worked out on blueprints. At present, if the QC [quality control] groups now being formed throughout the country will pay attention to development in the direction of the design department, they will provide a more effective way to success. At the same time, utilizing leftovers as a rational way to conserve resources, lowering labor expenses by raising output, increasing work efficiency by changing product design and processing methods, changing raw materials as a means of reducing energy consumption, strengthening or improving the use of tools, repairing and lubricating as a means of indirectly reducing material consumption, and comprehensively utilizing various experimental materials and supplies for official business and so forth are all important ways to reduce production costs.

(2) Equipment investment plan. Instead of relying on the importation of new equipment, we should give play to the role and efficiency of our existing equipment. Before investing in new equipment, we should consider the balance of capacities in the work sequence and the suitability of the scope of production, and then compare the usefulness of all-purpose machines with that of special machines. We should also consider the extent of automation and other factors, all of which should be carefully attended to at present.

(3) Reduce reserves as much as possible and adopt the "signboard" method of production. Following the great success of the Toyota Motor Vehicle Company of Japan in changing the traditional method of production management from "top-downward" to "bottom-upward," the "kanban" [signboard] production method has become a popular subject for study. Of course, coordination in various aspects is needed before this can become a success. Yet we should now at least consider changing from production on the basis of unreliable plans to production according to orders placed in the form of contracts. This will produce good results by reducing various reserves.

The most important element of a rational production strategy is participation by the entire personnel; otherwise, none of the above tasks can be accomplished. To ensure full participation, intensive political and ideological work is needed. Small group activities should be encouraged, and attention should be paid to workers' interests and welfare so that everyone will treat the plant as his own home. This is the most basic rationality.

3. Introductory strategy. Research on the introduction of new products is indispensable to the achievement of good economic results. Therefore, a whole set of jobs needs to be done, from introductory plans, design research, and the turning out of commodities to pioneering work on the market. In working out a strategy, however, we should first clearly understand the life expectancy of the products. This can be shown in the following diagram.



- | | |
|-------------------------------|---------------------|
| Key: 1. Introductory research | 5. Decline of sales |
| 2. Output of products | 6. Total sales |
| 3. Market development | 7. Total benefits |
| 4. Market saturation | |

In this diagram, we should note the size of the shaded area at the beginning of the "total benefits" curve from the 0 line. Attention should be paid to this factor in working out an introductory strategy. In the past we did not study this aspect, even for the capital construction of production enterprises, not to speak of the

introduction of new products. Of course, this curve, like the sales curve in sales strategy, has different shapes for different groups of commodities. However, they are generally similar.

According to this strategy, enterprises are regarded as a complete system with the following special features:

First, they are affected by the environment and in turn affect the environment. This is the most striking feature of modern enterprises. An enterprise's business and its economic results are affected by the conditions of market demand. However, they can also create market demand. They are affected by policies, but their development can also affect the formulation or change of policies. They are also affected by the social concept of value, but they can change the social concept of value. Finally, they can be restricted by technical conditions, but they can also create or renovate technology.

Second, among either the internal elements (manpower, money, and materials) or the external environmental elements of an enterprise, there is always the element of uncertainty. Uncertainty is the source of risks for enterprises, but business strategy is worked out to deal with enterprise risks. An enterprise's economic results are gained by overcoming these risks.

Third, the collection and analysis of information and numerical data therefore form an indispensable basis for working out business strategies. The market investigation we usually talk about is only a means of obtaining this needed information, but market investigation itself is also one type of environmental information.

An understanding of these basic concepts is useful to the consolidation of enterprises, the reform of business management, and the improvement of economic results.

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FINANCE AND BANKING

PRC JOURNAL ON MIDDLE, SHORT-TERM BANK LOANS

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[Article by Yang Peixin [2799 1014 2450] dated 20 Aug 81: "On Middle and Short-Term Bank Loans for Equipment and Installations"]

[Text] The middle and short-term bank loans extended by the People's Bank of China are new products that have emerged from the reform of our economic management and readjustment of our national economy. In October 1979, leading comrades of the party Central Committee raised the question of whether it was conceivable to change the financial appropriation system to a bank credit system, making the banks a lever for economic development and technological renovation. Banks should deal with economic problems. Instead, they are now only playing the role of making out bills and keeping the books without really playing their role. In regard to enterprises that produce quick results with little investment, we should bypass financial appropriations and take up bank loans. Many plants need only a few thousand yuan to resolve their problem; some need a few tens of thousand or a little more than 100,000 yuan. In such cases, the bank should supply them with loans. If such loans are handled with good adaptability, the banking network is going to be expanded. In fact, this proposition became true in 1979 in the experimental points for economic management reforms in Sichuan Province. With more decisionmaking power, the enterprises were able to keep part of their enterprises fund in addition to a certain amount of their depreciation fund. However, even the combination of the depreciation fund, the major overhaul fund and the development fund was not sufficient to cover the financial needs of the old enterprises in their effort to adjust to the market demand requiring improvement of product quality and varieties by tapping unused potential and carrying out renovation and transformation. It was this situation that required the banks to take in the various funds of numerous enterprises in order to make middle and short-term loans for equipment and installations to enterprises in most urgent need. By the middle and short-term loans we refer to here, we mean loans of 3 to 5 years maturity for the former and less than 1 and 1/2 years maturity for the latter. At that time the comrades of the Sichuan provincial party committee issued an instruction to stop making uncompensated appropriations out of the provincial government expenses and ordered that middle and short-term loans be made instead through the People's Bank of China by reason of the bank's wide coverage in urban and rural areas by its branches and its constant and extensive contacts with the industrial and commercial community, thereby having the benefit of giving play to the economic effects of the loans. Along with this, they proposed that the banks be given the decision power in making loans and that the various departments concerned be limited

to the right of making suggestions, leaving the decision on the loan, its amount and the length of its maturity to the discretion of the banks. In 1980, in order to suit the situation of readjusting the national economy the People's Bank sponsored middle and short-term loans for equipment and installation throughout the nation. The total amount of the loans was set at 5 billion yuan, 2 billion were of middle and short-term loans of general nature to be controlled by basic-level banks, and 3 billion of which were special-item loans to be ratified by the State Council in the fields of textile and light industries, electronics, communications, railways, the metallurgical industry and so on. By the end of 1980, loans outstanding amounted to 4.54 billion yuan, 1.95 billion of which fell into the category of middle and short-term loans of general nature, and 2.6 billion of which were special-item loans. Loans paid back during the current year amounted to 560 million yuan.

The issue of middle and short-term loans for equipment and installation has been much welcomed by the enterprises. Having successfully achieved its technological transformation with the aid of long and short-term loans, the Zhongnan rubber factory of Chongqing municipality presented a silk pennant which read: "We are not of the same family yet we go beyond family ties: with one heart and one mind, we strive together for the four modernizations." The leading cadres of Chengdu textile mill said: Bank loans have supported our mill in increasing production and income. It is just like using good steel at the cutting edge of the knife." The collective enterprises commended the loans as "sending charcoal in snowy weather." The leading comrades of the local party and government organs of Jiangsu Province and the departments in charge of the enterprises made the comment: "The middle and short-term loans of the People's Bank have given us a solution to the problems which we tried to solve for so many years in the past, but to no avail." On the other hand, there are also some comrades who think that the middle and short-term loans made by the People's Bank have over stretched the capital construction front, squeezed out government revenue, encouraged excessive issue of bank notes, and done damage to the principle of dual management of government funds and bank credit.

In March this year, the People's Bank of China summoned a conference in Tianjin to exchange experiences in making middle and short-term loans, and delegates from various provinces and municipalities made a preliminary review of the past and summed up the past experiences. Since practice is the sole criterion for testing truth, it is the objective facts and actual practice that we take as the context for probing the question as to what roles the middle and short-term loans have played and what problems are to be solved.

(1) The middle and short-term bank loans for equipment and installations have forcefully accelerated the readjustment of the national economy.

Short-term bank loans are not large in amount. However, they have had a strong and extensive effect on the national economic life, mainly seen in the following aspects:

1. They facilitate the rapid increase of the production of consumer goods.

The national conference of light industry departments at provincial and municipal level in March this year revealed that "making middle and short-term loans is a good way." Last year a total of 970 million yuan of loans was made to light industries, which played significant role in increasing the production of consumer

goods in short supply. In the first year, success was achieved in increasing production capacity for making bicycles, sewing machines and wristwatches by 1,500,000, 90,000 and 1,000,000 units respectively. In the same year, the production of beer increased by 25,000 tons, high-quality wine by 210 million tons and leather shoes by 200,000 pairs. The conferees asked for more middle and short-term loans for this year, 500 to 600 million yuan in amount, so that 1.3 billion yuan of taxes and profits might be generated this year and an increase of production of such goods achieved to withdraw 4.2 billion yuan of currency from circulation. Shanghai Municipality planned to designate 10 factories to produce more of the "3 major consumer durables" [television sets, bicycles and wristwatches] for the light industry sector. The light industry sector of Shanghai Municipality asked for 30 million yuan of loans this year so that 1.9 billion yuan in goods might be increased in production and additional taxes and profits totalling 1.19 billion yuan might be generated. If an additional 30 million yuan of loans are made in 1982, 296 million yuan more of the 3 major consumer durables will be produced and an increase of taxes and profits of 1.19 billion yuan will be made. All these loans can be repaid in 1982.

With the help of the middle and short-term loans, rapid growth of the production of brand goods has been achieved, and a heartening prospect has emerged. The Hangzhou yellow rice wine, originally manufactured in the traditional way, attained an annual production of 8,000 tons only, which was insufficient to meet the demand of Hangzhou inhabitants and had to be supplied on a ration basis. With 134,000 yuan of equipment loans from the banks and with the backward production methods improved and production mechanized, an increase of production of 120,000 tons has been made possible. Manufacturing started in November last year, by year end output value increased by 1,080,000 yuan and taxes increased by 800,000 yuan. Now Hangzhou yellow rice wine is being supplied without rationing. Beijing beer has been in short supply, as the two breweries making it are old factories constructed before liberation with obsolete equipment and outdated production technique. With 3.3 million yuan of bank loan for the purpose of getting more storage vessels, renovating equipment and improving production technique, production can be increased by 5,000 to 10,000 tons this summer. The People's Bank also made a loan to Shunyi County brewery to reconstruct its abandoned plant and annual production is expected to be increased to 20,000 tons. The Kuandian food factory of Liaoning Province produced biscuits which were black and hard. The local inhabitants sent some of the biscuits to REDMIN RIBAO and commented that "throwing these biscuits could kill someone." A bank loan was made to the factory to purchase an infrared ray electric oven. The biscuits produced there now smell wonderful and taste sweet, and production has been increased by 280 percent. In Fuxin Mongol Autonomous County of Liaoning Province, no factory for producing soybean sauce has been constructed since liberation and supply had to be provided by Shenyang intermittently. With a loan of 40,000 yuan, a soybean sauce workshop was constructed and in 1 month's time production was started with enough output to satisfy the needs of the people. In Sichuan Province, a bank loan of 140,000 yuan was made to the factory producing the Wuliangye liquor, and an increase of production of 1,000 tons was expected in order to satisfy market demand, both domestic and abroad. As indicated by statistics of Liaoning Province, of the total middle and short-term loans, one-third has been allotted for the purpose of improving product quality and increasing product varieties in order to market more high quality famous brand products.

2. It helps the enterprises divert production to marketable consumer goods, develop cooperation and accelerate readjustment.

The Changan Country pottery and porcelain factory of Shaanxi Province, a collective enterprise, had taken losses of more than 500,000 yuan in the past few years because of high costs and poor quality products and lack of markets. A decision was made by the department in charge to convert this factory into a cotton weaving mill, and a bank loan was granted to purchase 250 weaving looms, which were installed and began production in June last year. By the end of the year, 1,500,000 meters of khaki were produced with a value of 2,000,000 yuan. The mill made a profit of 50,000 yuan and provided employment to more than 500 workers who had been laid off as the result of the closure of some factories in the country. The Chongwen chemical fibre factory of Beijing, which had been producing cords for fishing nets with little sales, was merged into the second woollen sweater factory, with the result that 200 transverse machines were needed. At the beginning of last year, a bank loan of 200,000 yuan was granted to the factory and the original plant was used to install the machines to begin production. By yearend, more than 90,000 woollen sweaters were produced, increasing output value by 1,860,000 yuan and yielding 429,000 yuan in taxes and profit. The Nanshan knitting factory of Chongqing was originally a producer of quartz sand, and was converted into a producer of sleeveless vests because of insufficient sales. With a bank loan of 500,000 yuan, production lines of weaving, bleaching, dying and sewing were set up. Production began in May last year, and by yearend 170,000 good quality vests underwear were produced. With full utilization of its designed capacity, the factory can produce 400,000 pieces of clothing and supply 400,000 yuan of profit. In the case of the heavy rolling mill of Chongqing Steel Corporation, which modified abandoned equipment into 265 rolling presses to produce small construction steel products, with 70,000 yuan of its own and a bank loan of 50,000, construction began in March and production started in May last year. Some 422 tons of rolled products have been already produced, making a profit of 120,000, and the bank loan has been repaid already. It is expected that with the capacity of the pressers fully utilized, 500 tons of rolled products can be produced annually, increasing taxes and profit to 170,000 yuan.

Through the middle and short-term loans, the banks have enhanced cooperation among the enterprises in terms of specialization. With a bank loan of 6 million yuan, the Dalian bicycle factory increased its production capacity of 26-inch and 28-inch bicycles from 180,000 to 300,000. Thirteen enterprises including shipyards and heavy machinery factories were urged by the local authorities to help make equipment and provide wheel rims, cranks and other parts. The banks also joined in to provide funds. These enabled production of 26-inch bicycles to increase rapidly to 26,000.

According to the statistics of Hangzhou, Zhejiang Province, only 13 percent of the middle and short-term bank loans were used for civil engineering construction. In the case of Dandong City, Liaoning Province, the percentage is only 7 percent; in Wuhan, it was only 6 percent. Most of the loans were used for the purchase of machinery equipment. The national total of 4.2 billion yuan of middle and short-term bank loans has provided more than 3.5 billion yuan of purchasing orders for the machine-building industry, not including the funds owned by the enterprises brought along into the deals by the bank loans. This is a forceful impetus for making the machine-building industry produce for the light and textile industries and offer its services to the enterprises in tapping unused potentials and undertaking

renovations. This has played a role in enlivening the machine-building industry and stopping its production decline and taxes and profits fall. Therefore, the middle and short-term bank loans have played the role of hitting two birds with one stone, not only increasing production of the light and textile industries but also enlivening the machine-building industry. This helps to break the suffocating situation and benefits the linking and normal operation of the various sectors of the national economy.

3. It supports the enterprises in every way to save energy.

Saving energy is an important strategic measure in the process of readjustment, as it is expected that the increase of energy needs caused by increased production is to be met by energy saved. To save energy, it is necessary to activate tens of thousands of enterprises and to wage a mass campaign. Through the support of bank loans, it is possible to achieve much with little money and to get comparatively great economic effects in a short span of time. By the end of February 1981, the bank of Shanghai had made 7 loans for energy saving, totalling 308,000 yuan. As energy-saving yields quick results, four of the loans have already been repaid. The 26th cotton textile mill took a loan of 26,000 yuan for converting 8 single-speed air blowers into 3-speed blowers. The transformation was completed in June last year, and more than 300,000 kwh of electricity were saved in 2 months. By yearend the loan was repaid with the savings in the consumption of electricity. In the case of the Shanghai solvent factory, with the increase of 8 spiral-plate heat-exchangers, 2.5 tons of steam have been saved per hour. This means 1,200 tons of oil saved annually. The factory has already repaid the loan with savings from energy consumption. The Beijing smeltery, a producer of reclaimed copper, took a bank loan of 150,000 yuan to purchase a packing machine to press the small copper pieces into cakes. This enables the switching of multi-feeding to single feeding of the electric furnace, whose power consumption has been reduced from 200 to 110 kwh per ton of copper smelted, and coal consumption in earthen furnaces has been reduced from 290 kilograms to 273. Last year, 280,000 kilowatt hours of electricity and 54 tons of coal were saved, and 60 more tons of copper ingots were produced. Taxes and profit were also increased by 250,000 yuan. The Nanhai sugar refinery of Guangdong Province, by taking a bank loan of 1 million yuan, completed its project of electric generation by residual heat and started operation before the sugar refining season. In the past, 740,000 kwh of electricity were required from a major power grid. Now the factory has enough electricity for its production and household consumption. In addition to these, 340,000 kwh of electricity are supplied to a major power station. Some 9,000 tons of coal are saved annually and profit has increased by 470,000 yuan. With the completion and operation of the power generation project by residual heat in 5 sugar refinery factories, it is expected that 30 million kwh of electricity will be added and 32,000 tons of coal saved. The vacuum flash factory of Hangzhou originally had 3 oil burning boilers, consuming 2,700 tons of oil annually. In August last year, a bank loan of 300,000 was granted to the factory to convert the boilers into coal-burners. Operation began in December. Not only has oil consumption stopped, but expenses are also reduced by 210,000 yuan annually. The Hangzhou brewery had 3 Lancashire boilers, notorious coal gluttons. With a bank loan of 75,000 yuan, the boilers were modified into fast-feeding boilers, which saved 155 tons of coal monthly and increased output value by 400,000 yuan, and taxes and profit by 100,000 yuan. The Jingshan boiler subsidiary equipment factory of Hubei Province, a producer of boiler ash cleaners, took a bank loan of 125,000 yuan and purchased 5 important pieces of equipment. Production has been increased

to 1,600 cleaners to be supplied to 320 purchasers throughout the country, capable of saving 181,000 tons of coal for the state and increasing electricity generation by 4.1 billion kwh. The rate of certified products for these cleaners has been raised from 55 to 98 percent. Output has been raised by 150 percent, costs reduced by 44 percent, and net profit increased by 490 percent. In 10 months' time, the loan was repaid in full. The Chongqing branch of the People's Bank, in its operation of loans for small hydro-electric generation sponsored by Sichuan Province, granted a loan of 1.2 million yuan in support of the Qijiang hydroelectric station. In July last year, 32,240 kwh of electricity were produced and the needs of local industrial and agricultural production were met. The total loans for small hydroelectric generation construction in the nation as a whole amounted to 240 million yuan. Some 160 projects were completed during the year, adding 280 million kwh of power generation.

4. It gives support to communications, transportation and the tourist trade, and increases export and employment.

Transport and communications comprise a weak link in our national economy at present. They should be the sectors to be developed and strengthened in the process of readjustment. Through the operation of middle and short-term loans, the banks have accelerated the development of transportation and communications. As Zhejiang is a coastal province, it has vast coastal waters and many seaports and abourds in waterways and river networks, enjoying predominance in water transport. Despite all this, these, in 1979 6 million of cargo shipments were left undelivered. The same unfavorable status was also found in the old age of shipping vessels and serious waste in energy consumption. While the combined output capacity of the 38 shipyards of the province amounts to 45,000 tons, the annual target for production was only 29,000 tons last year, only 65 percent of capacity. The fact that concrete boats have a 40.2 percent deadweight ratio against their load capacity and the age of the wooden vessels surpasses 30 years indicates the necessity of renewal and transformation. Last year, loans granted by banks to the water transport businesses in the province totaled 1 million yuan for constructing 152 vessles. This added 18,000 tons of construction assignments to the shipyards, bringing their operation in basic terms to full capacity as well as rendering help in cleaning 5,212 tons of steel products and some machine and electric products in stock. "Suffocation" in three areas has been relieved.

Loans have been also granted to Hangzhou tourism, services, food and beverage and cultural businesses by the bank. A bank loan of 30,000 yuan has been granted to the city gardening company in support of its business in constructing fish ponds and breeding gold fish. Its operation increased income by \$40,000 due to export of its products, and raised profit by 30,000 yuan. Loans have been also granted to the garden and woods travelling service company for the purpose of purchasing sightseeing buses, and constructing mountain villas for toursits, thus integrating food, lodging, transportation and entertainment into a whole. A bank loan of 290,000 yuan has been granted to the Leshan and Emei mountain tourist district of Sichuan Province for the purpose of four sightseeing buses and two yachts. Tourists can take the buses from the city right up to Emei mountain, and cruise on the yacht to enjoy the sight of the Dafo monastery and the Wulong monastery. A loan has also been granted insupport of purchasing mobile cabins for Emei mountain and an additional 340 beds so that tourists may stay on the golden summit overnight and enjoy the sight of sun rising in a sea of clouds next morning.

Bank loans are also extended to give play to the local predominating trade and promote exports. Zhejiang Province is well known abroad for its laces and arts and handicraft articles. These are labor-intensive products, mainly made by handiwork of village women and of collective enterprises. They had difficulty in development for lack of funds in the past. The mountain climbing shoes made by Leqing industrial arts shoe factory are marketed as far as the EEC and have a high rate of earning foreign exchange. However, this factory lacks equipment and its workshops are congested. With a bank loan of 600,000 yuan, it expanded its production capacity from 2 to 6 million pairs of shoes. Last year, an increase of production of 2 million pairs boosted output value by 7.5 million yuan and taxes and profit by 900,000 yuan, and earned \$3.4 million. Xiaoshan lace was once awarded a gold medal by the state. In November 1979, a bank loan of 200,000 yuan was granted for purchasing equipment to expand production. It took only 4 months for the project to go into production last year. Through middle and short-term bank loans, Shenjiang Province increased its foreign exchange earnings by as much as \$13.9 million. Firecrackers and fireworks are traditional export products of Guangdong Province. Bank loans amounting to 800,000 yuan were awarded to Nanhai firecracker works and Nanhai Red Flag firecracker works to expand their plants. Some 12 million yuan worth of firecrackers were exported, an increase of 10.6 percent compared with the previous year. Fireworks exports increased by 19,000 boxes. This year production can be increased to 23,000 boxes, which can earn \$1.46 million. The 3 sub-branches of the People's Bank in Jiangling, Honghu and Taianmen, Hubei Province, made loans amounting to 1.53 million yuan in support of enhancing production of industrial arts shoes, plastics flower and other products, which enhanced output value by 19,290,000 yuan and increased foreign exchange earnings by \$11.1 million. Statistics of Shanghai and the provinces of Zhejiang, Guangdong and Hubei alone indicate that through the support of middle and short-term bank loans, foreign exchange earnings were increased by \$53 million.

The support given by middle and short-term banks loans to reproduction in the enterprises implies growth of employment of young people. Bank loans amounting to 1.41 million yuan extended in support of 14 light industry and textile products in Wuchuan County of Guangdong Province increased output value by 11 million yuan and taxes and profit by 2.94 million yuan, and provided employment for 1,340 persons. Last year in Hubei Province, a total of 14.99 million yuan of loans were extended to 47 labor-intensive projects, mostly producing arts and handicraft articles, apparel, shoes, hats, leather, leather shoes and other products, and employment was provided for 9,500 persons awaiting employment. Last year in Liaoning Province 48 loan projects, totalling 22 million yuan, for the No 2 light industry system provided employment to 20,000 young people awaiting employment.

As indicated by the facts mentioned above, middle and short-term bank loans have played an important part in the readjustment of our national economy. Leftist mistakes bogged down the national economy in a vicious circle, giving undue emphasis to the development of heavy industry, setting high targets and requiring large-scale capital construction. Thus led to financial deficits and over-issue of currency, and had unfavorable impact on the market as well as on prices. This disabled our country financially in further developing the energy and communication industries, in making more investment in the light and textile industry as well as in providing more employment for young people awaiting employment. After more than 1 year's experience, by now we are beginning to see a new road whereby despite the financial difficulties of our country we can develop production of consumer goods and the light

and textile industries at a comparatively rapid speed, save energy by various ways in order to develop our communication and transportation industries, make the machine-building industry shift to the track of serving the light and textile industries, enhancing production of consumer goods and rendering service to the export industry as well as helping industries to divert to other production and to cooperation by specialization, increasing employment, government revenues and commodity supply, withdrawing currency from circulation, and extricating the national economy from its vicious circle and setting it in motion in a healthy cycle. In this respect, the middle and short-term bank loans for equipment in installations comprise one of the important economic levers by which our country can rid itself of the economic difficulties and transform the vicious cycle into a healthy one. In 1980, output value of light industries of Liaoning Province increased by 3.6 billion yuan, 700 million of which were created by middle and short-term bank loans, 19.5 percent of the newly-increased output value. The percentage for the city of Dandong was 20.8 percent, for Jinzhou, 26.1 percent, and for Fuxin 33.5 percent. In Shandong Province, of its increased industrial output value in 1980, 22.4 percent was facilitated by 47.4 percent for Shouguang County in 1979, and the percentage increased to 56 percent for the period January-September 1980. The middle and short-term bank loans for equipment and installations by steps have gained an important position in facilitating enhancement of production of light and textile industry as well as in readjusting the proportions of our national economy. Such loans are becoming an important part of treading a new road for the development of our economy.

(2) The middle and short-term bank loans have provided a new approach for enhancing investment results.

By replacing government appropriations for fixed capital investments with bank loans, the middle and short-term loans made by the People's Bank have effectively enhanced investment results.

Our capital construction investment results were inefficient in the past. From 1952 to 1978, 60 billion yuan of capital construction investments were made, only 40 billion of which however actually took the form of fixed capital assets. From 1952 to 1979, 35 billion yuan of industrial investments were made. In the same period, taxes and profit collected amounted to 86 billion yuan. By and large, investments were redeemed in 10 years. The length of investment redemption is much longer than in Japan and the United States. Aside from this, there is the tendency for investment efficiency to decrease by degrees. As indicated by calculations of the first ministry of machine-building, the length of time of investment redemption was 3 and 1/2 years in 1st 5-year plan and 7 and 1/2 years in the 3d 5 year plan, and there has not been a single redemption for investment projects since 1970.

Despite the fact that the operation of middle and short-term bank loans has been carried on for only a little more than 1 year, a road has been trodden leading to better investment results. As indicated by the statistics of the first light industry bureau of Liaoning Province, 39.39 million yuan worth of middle and short-term bank loans can generate 180 million yuan of new output value, 42 million yuan of taxes and 29 million yuan of profit. In 7 months' time, the loans will be repaid in full. The investment result may be stated as follows: each yuan of equipment and installation loans generates 12.7 yuan of output value annually, and add 2 yuan to the state accumulation. This means that the time span for investment redemption runs from 6 to 8 months.

Why then do the middle and short-term bank loans yield comparatively better results? This is so because the loans are used for tapping unused potentials and undertaking reforms and transformation of the old enterprises, making full use of the original plants, installations and equipment, technological force and management organs. At present, many old enterprises are characterized by low economic efficiency, high consumption of energy and raw materials, poor product quality, high costs, low profit rate, and slow turnover of funds. One important reason for this is the slow renewal and transformation of fixed assets and the lack of decisionmaking power for renewing and transforming equipment on the part of the enterprises. Little funds have been devoted to the transformation of old enterprises. Let us take the textile industry of Changzhou, Jiangsu Province, as an example. During the period 1949 to 1978, 2.05 billion yuan were accumulated for the state. For the same period only 16 million yuan of investment were made by the state. This total value of fixed assets in 1978 amounted to 139 million yuan. As stipulated, there was only a retained share of 2.8 million yuan which could be used for renewal and transformation. This was just enough for tinkering here and there, and patching up just to get by. Many renovation programs had to remain untouched. This of course shackled the development of production and improvement of technology. Since the fixed assets of an enterprise wear out bit by bit and the compensation fund is also drawn bit by bit, there is the process of drawing out by stages and putting it to use in combination. Hence comes the situation where many enterprises draw their funds for later use, keeping the funds temporarily idle while other enterprises want to put the funds to use before the withdrawals, and require an advance. All these spell the necessity of the banks' involvement in the process of technological renovation of the enterprises, as well as their function in regulating funds in the field of fixed capital. The banks' issue of middle and short-term loans marks the beginning of such involvement. As indicated by the investigation undertaken by the textile bureau of Shandong Province in respect to bank loans last year, it was found that investment can be saved more than 50 percent in tapping unused potential, undertaking reforms and transformation, and time for construction can be reduced more than 1 year in comparison with new construction. For example, by making use of the plant originally owned by a tractor factory, the second dyeing and weaving factory of Yantai City completed in less than 1 year a trimming and clearing line capable of producing 10 million meters of polyester fabric annually, reducing civil construction by 4,300 square meters and saving investment by half. In the case of Liaoning Province, generally speaking, the middle and short-term bank loans averaged 100,000 yuan per project last year, and the turnover of the loans took less than 1 year. Each yuan of loans for equipment and installations generated 5 yuan of output value and provided 1.56 yuan for state accumulation, whereas in the case of newly constructed enterprises, the turnover of the loan took 2 of 3 years and each yuan of the loans generated 2.5 yuan of output value and 70 cents of taxes annually. Through a bank loan of 550,000 yuan, the Shenyang City Brewery increased beer production by 6,000 tons. A new brewery producing 5,000 tons of beer annually would require an investment of 5 million yuan and would take more than 2 years to build. Over the years, in the first light industry system Zhejiang Province, the ratio of capital investment to new output value has been found to be 1:4, while that for the second light industry system has been found to be 1:7. In the case of equipment and installation bank loans, the ratio has been 1:11, surpassing capital investments in efficiency by 100 percent. All these facts prove the validity of the resolution made by the party Central Committee and the State Council regarding the replacement of government appropriations for capital construction investment by bank loans in the years to come. These facts

also vindicate what the leading cadres of the State Council have in their mind: namely, instead of setting up new outfits everywhere, we should mainly depend on the existing enterprises tapping unused potential and undertaking renovation and transformation in the years to come.

The following factors may be mentioned as regards why the middle and short-term bank loans yield comparatively better investment results:

1. Under the guidance of the party committees of various levels, and with cooperation between various departments and the banks, macro-analyses and micro-investigation have been combined, and attention has been paid to both overall balancing and to keeping to the terms required by the loans, thus making the economic results of the loans a certainty. Issuing middle and short-term bank loans gives rise to involvements to various aspects of the national economy: the overall balancing taken by the State Planning Commission, the planning in tapping unused potential and undertaking renovation and transformation done by the State Economic Commission, the allocation of construction supplies and work force under the charge of the State Capital Construction Commission, the ordering of equipment by departments in charge, state revenues of the government divisions, profits, materials provided by various supply departments and the handling of the three wastes under the charge of the environmental protection departments. Consequently, close cooperation is required among the various departments to make analyses in product design, source of raw materials, size of construction, economic effects and so on. In the meantime, assurance must be given to the loan decisionmaking power of the banks, and full responsibility must be given to the credit officer of the banks at the basic level to check on the conditions of construction and production, the economic effects after production and the ability to repay, and to refuse loans to those who do not meet the requirements, in order to effectively resist blind and duplicate construction. We should strengthen the leadership of the party and the government, and give play to the banks in their capacity as economic organizations. It is the combination of the two that brings the loans into conformity with objective reality and gives us better loan results.

2. An early start of operation of the projects and better investment results can only be guaranteed by strengthening economic responsibility of the enterprises and arousing their initiative through the medium of bank loans as an economic lever. The middle and short-term bank loans are different from investments supported by uncompensated state financing. The former require repayment by a definite date, and interest payment. It is exactly this which directly links with the economic interests of the enterprises and their employees, and operates either as a pressure or as a motivation force, making the enterprises follow strict budgeting and expediting construction, operation and repayment of loans. It is said in the enterprises: "Since investments from the government require no repayment, the more we have the better. In the case of bank loans which require repayment of principal and interest, we have to stick to very strict budgeting." In this way, the enterprises do their best to accelerate the progress of their projects, and to strive for going into production early in order to get the benefit early and to return the bank loans early. The Pingdu tannery of Shandong Province did not wait for the completion of its civil engineering project. Upon the arrival of its newly-arrived 18 pieces of equipment, the company installed the equipment in the old workshops and temporary work shed in order to start production earlier. By the end of last year, 150,000 pieces of leather had been produced. A total new output value of 1.44 million yuan and 210,000 yuan of profit were realized, and the bank loans were returned 1 year ahead of time.

3. Strictly stick to giving the banks the loan decisionmaking power. This gives the banks the authority to lend as well as exert pressure, and ensures that they can resist duplicate and blind construction projects as well as those that do not yield any economic results. This is the crucial link in enhancing economic efficiency.

Making the banks responsible for playing the role of regulating the national economy through the economic lever of making bank loans is a great encouragement to the bank cadres, inspiring them to take the responsibility, to challenge hardship and difficulties and participate actively and passionately in this new task. In Liaoning Province, banks of the city, county and down to the very lowest level, have generally given stress to this task, and have assigned the task to directors, section chiefs and specially appointed persons. In Jianli, Hubei Province, a responsibility system for equipment loans has been set up with specially-appointed administrative personnel. Very earnest and responsible work has been done to make micro-investigations for the loans. The Tianjin branch made a case-by-case investigation of the loan projects transmitted from their higher authority; 24 projects were found unqualified for the loans because of lack of marketability or assurance of material supply, or unsatisfactory preparatory work, and these projects were strictly barred from the loans. At the end of its investigation, the Chongqing branch canceled 23 projects for reason of duplicate and blind construction, uncertain supply of materials, competition for raw materials, inadequate supply of energy and serious pollution. On the other hand, once a loan has been approved, the banks would cast in their lot with the borrowing enterprises, pay constant attention to the progress of the project and offer their help in good time. A bank loan was awarded to the Xian hosiery knitting mill for the purchase of 40 knitting machines. According to the plan, delivery of the machines was to be made at the end of last year. The credit officer of the bank, however, asked the Shanghai offices of the bank to contact the enterprises concerned, and was successful in moving up the delivery date 5 months. By yearend, 180,000 pairs of hosiery were produced, and profits were increased by 72,000 yuan. The loan was also returned ahead of time.

4. Give full play to the predominance of the banks. There are more than 30,000 banks at the basic level, having constant contacts with 400,000 enterprises. The banks have been giving working capital loans to the enterprises and are well-informed of the conditions of the various sectors as well as of the individual enterprises. We should make use of this advantage, and combine macro- and micro-analyses to make the middle and short-term loans yield good investment results.

The financial system of our country is composed of the People's Bank of China, the Bank of Agriculture of China, the Bank of China, the People's Construction Bank of China, the Rural Credit Cooperatives and other financial organizations. These banks each have their own predominance and should be given full play in respect of their specialties. Our country has made the decision that the uncompensated government appropriations for capital construction investment will gradually be replaced by bank loans in the future, will be responsible for different tasks. Achievements have already been made in loans for small hydroelectricity generation by the Bank of Agriculture of China, in loans of foreign exchange by the Bank of China, and in loans for big and medium-scale capital construction by the People's Construction Bank of China. For the medium and short-term loans to be extended to the several hundreds of thousands of enterprises, which banks are in the best position to take the responsibility? Some comrades proposed that since the medium and short-term bank loans

fall into the category of simple and expanded reproduction of fixed assets, and since the People's Construction Bank is more experienced in supervising the construction work of capital construction, is it not reasonable then to deposit the depreciation fund, the major overhaul fund and the enterprise fund of the enterprises, one and all, into the People's Construction Bank? Likewise, the medium and short-term loans should also be handled by the People's Construction Bank. If our observation is purely made in the direction of capital construction, it should be admitted that this proposal is reasonable. However, whether the medium and short-term bank loans are effective in economic results depends first of all on their conformity with the macro-analysis of the national economy as well as on the supply, production and sales condition of the enterprises, the marketability of their products, the quality of their products, source of raw material and energy and their operation and management. In these respects, the People's Bank enjoys certain predominance. The People's Bank's suborganizations have a wide coverage over the urban areas and countryside, with more than 30,000 organizations in total. It is the everyday business of these organizations to handle the incoming and outgoing routine work of deposits and remittances, and loans for working capital for every of these enterprises. Besides, it is the duty of the credit officers to analyze the production and the supply and sales conditions of every enterprise and to be familiar with the crucial points of production development of the enterprises. For example, in the case of a working capital loan to the Qingdao Second Chemical Fiber Factory which had long been overdue for repayment, the People's Bank learned that the quality of the polyamide fibers produced by this enterprise had been poor and their price rather high. Besides, the enterprise suffered from single product output, lack of sales, overstocking of products, and hence business losses. The reason for all this was found in the backwardness and incompleteness of equipment, irrational technology, and processing of semi-finished products out of the province, making the cost of production more expensive. The remedy for the enterprises lay in technological renovation, the completion of equipment, and the renewal and replacement of equipment. The Qingdao local offices of the People's Bank at the basic level granted an equipment loan of 190,000 yuan to this enterprise to support its purchase of a resilience fibre machine, a pellet banking machine and other equipment, which finally led to the successful production of resilient polyamide, a new product, which achieved good marketability. Accordingly, the enterprise was able to turn losses into profits. It turns over 200,000 yuan of profit to the state and repaid every cent of the working capital loan accumulated over the years which totaled 500,000 yuan. The Xianyang shoe factory of Shaanxi Province suffered a loss in 1979 of 4,000 yuan to outdated styles of its products. A loan of 90,000 yuan was granted to the factory to purchase a rotating plastics injection machine and 9 horizontal sewing machines. With these machines put into production, production quality was improved, varieties of product increased, and the products were accepted in the international market. Last year, output value went up 125 percent, and a profit of 92,000 yuan was made. The Pingdu brewery of Shandong Province had difficulty in marketing its dried yam white wine. It thus overstayed its working capital loan. Last year, a loan of 170,000 yuan was extended to the brewery to help purchase facilities to manufacture ginger wine, which turned the local unmarketable wine and ginger into ginger wine, which was in short supply. Production began in May, and the working capital loan, 210,000 yuan in total, was repaid in October. If the problem of funds in the production process is artificially and metaphysically cut into two portions, the working capital loans and the middle and short-term loans for equipment, with the former to be operated by the People's Bank and the latter unrelated to the People's Bank, this is just like treating the

head when the head aches and treating the foot when the foot hurts. It makes it very difficult to have an overall observation in order to grasp the crucial aspects for seeking a solution. Why is it that our enterprises are less efficient economically in comparison with those of the advanced foreign countries, and that the working capital tied up is much larger in volume than that of those countries? This has much to do with the obsolescence of equipment and failure to form sets of equipments, backward technology, low quality and high cost of products as well as with poor sales, overstocking and the tying up of large volumes of working capital. One crucial step in accelerating the turnover of working capital lies in putting special stresses on tapping unused potential, and undertaking renovation and transformation by the enterprises, thus seeking solution in the production process. What we did in the past was copied indiscriminately from the Soviet Union. We believed that the banks could only extend seasonal and temporary working capital loans, and equipment loans were regarded as a forbidden area for the banks. This resulted in advocating the contract of working capital every year, only to be followed by the queer phenomenon of tying up more working capital. The very purpose of undertaking middle and short-term loans for equipment is to free the hands and feet of the bank in order to handle flexibly the middle and short-term loans and the working capital loans so as to solve the crucial production problems of the enterprises, to make the enterprises use their working capital in a more rational way and to activate the working capital loans which have been tied up for a long time.

Since the People's Bank acts as a bookkeeper for the country as a whole and handles deposits, remittances and loans for various enterprises, it is well informed of economic news and market conditions and it can examine the projects presented by the enterprises from the macro as well as from the micro viewpoint. This is another advantage of the bank. The project of the Tianjin lighter factory was started in 1974; its product was regarded as a new product and was expected to make a headway in the international market. In 1980, another loan, 300,000 yuan in middle and short-term equipment loan, was awarded to this project. When this project came to the examination of the bank, the commercial credit assessor reported the obsolescence of its product and its excess stockpile in the Tianjin warehouse. The foreign trade credit assessor reported that its products sold sluggishly abroad and were not well accepted. Upon this information, the bank made timely reports to its superior authority and the project was canceled. Sui County of Hubei Province, which produces 1 million jin of fresh tussah cocoon annually, planned to set up a tussah reeling mill, and requested a bank loan of 500,000 yuan. With inter-office information among the bank, three questions were made clear. First, Xiangyang and Yun counties produce 2,000,000 jin of fresh cocoons every year, and the reeling mill in Yun County needed a supply of 3,500,000 catties. This meant that with the old mill short of supply, a new mill would be duplicate construction. Second, the product does not yield profit. Beginning in 1980, the government stopped its subsidy. Third, tussah silk of our country has been exported to Eastern Europe, but what is needed there is mulberry silk. The bank reported all this to the country party committee, the project was canceled in the end, and loss was avoided. It is for this very reason of the bank's predominance in this respect that Sichuan Province and Chongqing Municipality entrusted their local revenues to the People's Bank to be lent out as middle and short-term equipment loans, mercantile industrial loans for equipment and loans for small hydroelectric generation, based on the belief that this is good for the enhancement of investment yields. Of course, in addition to the People's Bank, the Bank of Agriculture, the Bank of China, and the Bank of Construction should all undertake

middle and short-term loans within their own scope of business. A monopoly exercised by any one bank is inappropriate.

Through practice, we have already found a new path to enhance investment results on the questions of funds. The appearance of government financial deficit and the need of investment in such sectors as light and textile industry, energy, communications and transport urges us to change our course and switch to the new approach of low requirement in investment, quick results and rapid turnover and to middle and short-term equipment loans. As facts have indicated, the middle and short-term bank loans have turned out to be a success. Generally speaking, such loans can be repaid within 1 year, much shorter than our previous investments, which needed 10 years. Needless to say, this is achieved under the condition of applying the loans for the purpose of tapping unused potentials, undertaking renovation and transformation of the existing enterprises. However, the latent possibilities of tapping unused potentials, undertaking renovation and transformation of the existing enterprises are enormous; "It is gold everywhere" and enhancing production, increasing accumulation and improving the people's life by way of tapping unused potential and undertaking renovation and transformation of the existing enterprises have great prospects.

3) The middle and short-term bank loans enhance economic effects as indicated by micro-analysis and promote overall balance as indicated by macro-analysis.

The middle and short-term bank loan is a new product. Some comrades have raised all sorts of questions and are doubtful about it. To them, the middle and short-term bank loan does yield economic efficiency as indicated by micro-analysis, but the reverse is true from the standpoint of macro-analysis, since the loan stretches the capital construction front, ties up government revenue, destroys overall balance, and impedes readjustment, and is therefore undesirable. Our opinion is that these questions are basically settled, as indicated by our practice for more than 1 year that has just past. The following is our analysis in regard the main problems:

1. Is the capital construction front stretched by the middle and short-term bank loan?

The middle and short-term bank loan is mainly utilized in purchasing top-notch equipment and improving technology. The original plant is utilized and no civil engineering project is involved. Currently, the situation of the capital construction front is as follows. While there is a lack of steel products, lumber and cement, there is a surplus of bricks, tiles, lime, sand and stones. There is also surplus machine-building capacity. The middle and short-term bank loan fits quite well into the capital construction front situation, by reducing civil engineering projects to the minimum and putting the majority of the funds into machinery and equipment. Of these loans, part of the special-item loans handed down by the various ministries do involve some civil engineering. For those projects that involve civil engineering, the banks strictly stick to the regulations of capital construction. When a loan is sought, the enterprise must produce a ratified project report, preliminary plans, budgetary estimates and construction progress plans. The banks refuse to extend a loan, if things do not follow the regulations. As for the supplies needed by the special-item projects, 50 percent are provided by the State Planning Commission and State Economic Commission, while the other 50 percent are provided by the local authorities. The supplies needed by the ordinary middle and short-term bank loans

are supplied by the provinces and municipalities in a unified way. It should be pointed out that quite a large part of the special-item loans made in 1980 were assigned to existing projects by the various ministries of the central government which used the middle and short-term loans to complete the projects. For example 13 such projects were involved in Tianjin with loans amounting to 13.67 million. One of these was the Tianjin second cotton textile mill project, which was reconstruction and expansion work after an earthquake, involving almost 40,000 square meters of civil engineering construction with total investment of 40 million yuan. The project had been started in 1978 and was still under construction in 1980 and had a shortage in funds of 1.6 million yuan. The bank granted it a loan of 1.5 million yuan and the project was completed. Trial-running for production was made on 1 July 1980. From the viewpoint of the enterprise, 40 million yuan in investment has been saved by a loan of 1.4 million yuan. Due to the insufficiency of state investment, the Beijing wool-spinning factory, the Qinghe wool-spinning factory, and the Fourth wool-spinning factory were unable to put into production projects with imported equipment involving a total investment of 32 million yuan. A bank loan of 1.12 million yuan was granted in 1980 and the projects were finally completed. The Li An wool-spinning factory of Yanan City made an investment in constructing a new yarn-spinning workshop costing 6.44 million yuan. An actual investment of 4,040,000 yuan had been made since construction started in 1977, and the main body of the project had already been completed. With the help of the People's Bank, which extended to it a special item loan of 2.4 million yuan, the project was completed and put into production in July last year. By the end of last year, 49.8 tons of knitting wool were produced with an output value of 700,000 yuan and profit amounting to 197,000 yuan. It is the requirement of bank loans to make small investments with quick results and rapid turnover. Usually, no civil engineering is involved and long drawn out time-consuming "beard projects" are not allowed, since they stretch the capital investment front. For the present, the excessive length of our capital investment front is the outcome of the "leftist" influences which have brought about blind and duplicate construction over the years. The middle and short-term bank loans were started in 1979, amounting to 300 million yuan in the initial year. Such loans should not be blamed for the excessive length of our capital investment front in the past few years. In 1980, part of the middle and short-term loans were used to complete some civil engineering projects. Such loans played the role of cutting down the "beard projects," and shortening the capital construction front.

2. Have the middle and short-term bank loans tied up government revenue?

With regard to the repayment of middle and short-term bank loans for equipment, the State Council has made the following stipulations: "Enterprises under ownership of the whole people, can use all the increased profits, the fixed asset depreciation fund and the fixed asset taxes to repay their loan after operation of the project. If this proves to be insufficient, the enterprises may be exempted from the industrial and commercial tax for the increased portion of its production so that the tax funds may be used to repay the loan. Enterprises under collective ownership can use all their after-tax accumulation funds and fixed asset depreciation fund to repay their loan (during the period of repayment, the departments in charge are not allowed to draw on profits for the state and the various funds). If this is insufficient, the enterprises may use the income taxes and the industrial and commercial taxes on the increased products to make the repayment." This is a reasonable stipulation and is good for ensuring that the bank are strict in examining every loan and guaranteeing its economic effects.

The bank has persisted in adhering to the stipulations of the State Council in not "exacting money beyond the limit," and in not exerting unfavorable effects on the government's revenues. Some loan projects can be evaluated individually and some cannot be so evaluated. The reason for this is the overall enhancement of productivity, yielding larger economic results than those of the newly-constructed part. This is precisely the subtle contribution of tapping potentials and undertaking renovation and transformation. An agreement has been made among the branch bank of Tianjin, the department in charge and the government financial authority: When the economic results cannot be evaluated individually, the annual increment of profit after the loan project goes into production should be held for repayment of the loan, and partial repayments should be made as partial results come into effect, and it is forbidden to repay the loan by drawing on the base-point profit made before the loan project goes into operation. In the implementation of this measure it is the credit officer of the bank, the officer in charge of government finance and the enterprise who decide through consultation the amount to be repaid. For example, a special-item loan of 3.77 million yuan was granted to the sewing machine factory of Tianjin in 1980, which in the same year increased production amounting to 4.8 million machines, and profit and taxes by 960,000 and 560,000 yuan respectively. The bank, the government financial authority and the enterprise came to an agreement in a practical and realistic way through consultation, namely to make a repayment of 730,000 yuan on the special-item loan. The Tianjin branch bank reported the repayments of the loan as the occasions arose, and the government finance department never raised any objections.

The assertion that bank loans have tied up government revenue has much to do with the method of calculation. Some people calculate the growth rate of government revenue in accordance with the rate of increment of total value of industrial output, and refer to this as the natural growth rate. On this basis, the repayments of bank loans are regarded as deducting items and are deducted from the government revenue, and bank loans are deducted from the government revenues in the current year. In some places, profit targets are assigned in accordance with the rate of industrial growth of the current year, and repayment of bank loans by the enterprises is regarded as an income-reducing factor. There is no such thing as natural growth in the world. The increase of value of output is the outcome of many factors. The middle and short-term loan for equipment extended by the banks have already become an important factor in increasing the output value of the local industries. In some places, bank loans, are responsible for 20 to 25 percent of the results achieved. The practice of repaying bank loans according to the economic effects of the loans in order to facilitate extending bank loans to other enterprises not only helps the constant growth of industrial production but also the further growth of government revenues. This practice is totally in conformity with objective economic laws, and is in no way blameworthy. In 1980, the total middle and short-term loans of all banks across the country increased the national accumulation by 1.15 billion yuan, 560 million of which went to the banks as repayments of loans, while the remaining 590 million became additional revenues for the government. After the entire repayment of the loans, from the second year onward, the total accumulation will become government revenue. Therefore, instead of having reduced the government revenue, the middle and short-term bank loans have increased it.

3. Have the middle and short-term bank loans increased currency in circulation?

The regulation of currency in circulation is controlled by the People's Bank in two ways. On the one hand, the banks take in demand deposits and personal saving deposits from the various government bodies, social institutions and individuals in order to grant working capital loans to the enterprises and to regulate short-term funds. It is alleged that the middle and short-term loans of the People's Bank lack sources of funds in the long run. But this is simply not true. The People's Bank has taken in several tens of billion yuan in long-term deposits, but has only extended several hundreds of million yuan in middle and short-term loans. It has indeed taken a very prudent attitude. When the government finance is in deficit requiring overdrafts from the banks, should the banks stop the regular loan activities mentioned above? As indicated by our experiences of the past, we cannot do this. We certainly should not give up eating for fear of choking. During the war of resistance against Japan and the war of liberation, the bank had to issue more bank notes to support the war. Yet, the banks did not stop granting agricultural loans in wartime, as such loans rendered help to the peasants in rehabilitating their homeland under the scourge of war, and in restoring agricultural production in order to give forceful support to the revolutionary war, to serve the needs of the armed forces and the people, and to win final victory. When the major cities were liberated, with inflation still unchecked, we did not stop extending industrial and commercial loans. It must be understood that the solution to the problem of excess currency in circulation depends in the end on development of production. With production developed there will be more commodities, more government revenue, and more currency withdrawn from circulation, and the possibility of the disappearance of government financial deficits as well as the achievement of budgetary and bank credit balance. At present, in order to control the increase of currency and to withdraw more currency out of circulation, it is not only necessary to increase government revenue and reduce government expenses as well as to refrain from taking overdrafts, but also to increase bank deposits from the enterprises and the people and to cut down loans with poor economic effects. Currently, most of the bank loans are taken up as working capital funds in industry, commerce, foreign trade and material supplies. We should indeed make better studies to find out how to accelerate the turnover of working capital, and to reduce tied-up funds and waste in order to economize and to reduce the usage of loans. As for the middle and short-term loans, they are small investments, quick in results and rapid in turnover, which can be repaid within 1 year. They have achieved notable economic results in increasing commodity supply and government revenue. They have also played their role in helping the enterprises improve their production, and in enlivening the working capital and the working capital bank loans. Such loans are not factors stimulating currency increase and credit expansion, but rather factors withdrawing currency from circulation and reducing credit expansion step by step. Far from stopping the middle and short-term bank loans for equipment, we should further improve these loans and expand their scale, as they are already a powerful economic level for developing the light and textile industries, for activating the machine-building industry, and for enlivening the national economy. Those comrades on the monetary and financial front should free themselves from misgivings. Instead they should be bold and assured, and do their best to do good work in extending the middle and short-term loans so as to find a road of our own for enhancing investment results as well as a new approach for rapidly developing the production of consumer goods, for accelerating the withdrawal of currency from circulation, and for wiping out government deficits and excess currency in circulation.

4. Is the extension of middle and short-term loans for equipment in violation of the principle of dual management of finance and credit?

The difference between government finances and banking lies in the fact that government revenues and expenses are uncompensated, whereas bank deposits and loans are compensated. The taxes and profits received by the public financial bodies are all uncompensated. Contrary to this, the deposits and savings received by the banks as well as the agricultural, industrial and commercial loans extended by the banks are all compensated. If this is taken as the basic principle governing the dual management of government finance and bank credits, then it follows that the extension of middle and short-term loans are the rational and normal.

As for the practice copied from the Soviet Union, with the capital construction investments and the fixed quota working capital to be appropriated by the government with the banks only responsible for providing seasonal and temporary working capital loans to the enterprises, and branding all these as the principle underlying the dual management of government finance and bank credit—these things are far from proper. This is the practice of the Soviet Union. It is in fact a funds-supply system of the nature of eating from a common big pot. As proven by decades of experience of our country, the uncompensated allocation of government appropriations for capital construction investment and fixed quota working capital gives rise to waste of funds and decreases economic efficiency. This practice has been basically nullified by the economic reforms of our country under way, which expand the decisionmaking of the enterprises, and allow the enterprises to retain their share of the depreciation fund and the major overhaul fund and to set aside part of profit as their own development fund, and by the State Council's decision to replace step by step the uncompensated allocation of government appropriations by bank loans to finance capital construction investment. The practice of dual management of government finance and bank credits in the Soviet Union was formulated in the 1930's. By the 1970's this practice can no longer be carried on. Beginning in 1976, loans have been extended in the Soviet Union by the State Bank to capital construction projects awaiting completion in 5 or less than 5 years. In 1978, 275.9 billion rubles of bank loans were issued in the Soviet Union, 68.4 billion of which were long-term loans.

In short, the middle and short-term loans for equipment undertaken by the People's Bank of China have enhanced economic efficiency, as indicated by micro-analysis, and have opened a new road for enhancing investment results. They have also strengthened overall balancing, as indicated by macro-analysis. By effectively giving support to the light and textile industries, they have facilitated the readjustment of proportions among agriculture, light industry and heavy industry. By giving support to the production of consumer goods, they have provided the material basis for readjusting the proportion between consumption and accumulations. They have not overstretched the capital construction front. On the contrary, they have helped in completing certain projects, and have shortened the capital construction front. They have increased government revenue, and lent a helping hand in eliminating government financial deficits. With respect to their size, they are of small size among the bank loan lendings and repayments, and are characterized by rapid turnover and comparatively good economic effects which comprise a positive factor in withdrawing currency out of circulation. They have nothing to do with increasing currency in circulation. The middle and short-term bank loans for equipment have great vitality and very good prospect of development. As these are early days for their

operation, hence the lack of experience, a small part of the special-item light and textile industry loans have yielded less notable results, or played a role in giving rise to duplicate constructions. From now on, we should constantly supplement our experience and conscientiously do our work well in this field. We must cultivate our expertise, especially in the areas of economic investigation and research, economic information and technical specialists, and technical economic specialists, in order to improve our bank loans and economic information work and to strive for the realization of the party's guideline of readjustment, restructuring, rectification and improvement.

CSO: 4006/23

FINANCE AND BANKING

BRIEFS

300 BILLION YEN LOAN FROM JAPAN--Tokyo, 26 Aug (JLJI PRESS)--Japan plans to provide 300 billion yen (about 1,277 million dollars) in loans to China to help continue its plant construction projects, government sources told JLJI PRESS Wednesday. The plan would be formalized next week and offered to China early next month to obtain Beijing's (Peking) agreement by 20 September. Chinese Vice Premier Gu Mu could visit Japan for final adjustment, they said. Japan would give 100 billion yen (about 426 million dollars), originally earmarked for hydropower plant and tunnel projects, as a commodity loan and another 100 billion yen in a deferred payment credit. The remaining 100 billion yen in a deferred payment credit. The remaining 100 billion yen would be provided by banks, including the governmental Export-Import Bank of Japan. However, the Finance Ministry is strongly opposed to the bank loan on the ground that Japan is now trying hard to reconstruct its public finance. Thus the amount could be reduced at the next week's talks among ministries concerned. China, which has scrapped many plant construction contracts concluded with Japanese businesses due to its economic readjustment, has been asking Tokyo to extend huge loans to keep other plant projects alive. [Text] [OW261505 Tokyo KYODO in English 1358 GMT 26 Aug 81]

LIAONING CURRENCY WITHDRAWAL--As of 20 September, Shenyang Municipality had withdrawn 127.74 million yuan from circulation, 38.12 million yuan more than in the corresponding 1980 period. [SK261129 Shenyang Liaoning Provincial Service in Mandarin 1100 GMT 25 Sep 81 SK]

TAX EVASION IN GUANGDONG--Guangdong has scored definite achievements in conducting investigations in tax evasion. According to reports by all prefectures and municipalities from May to July, 48,446 enterprises had conducted self-investigations and they had made supplementary reports on 10.42 million yuan of taxes that had been evaded. The taxation department organized forces and investigated 11,768 enterprises; and they discovered 23.45 million yuan in taxes that had been evaded. By the end of July, a total of 20.32 million yuan of those evaded taxes had been handed in to the state treasury. In addition, during the period, 12.86 million yuan of tax in arrears had been cleared up and delivered to the state treasury. [HK161242 Guangzhou Guangdong Provincial Service in Mandarin 2330 GMT 30 Aug 81 HK]

CSO: 4006/8

ENERGY

BRIEFS

COAL SUPPLY FORUM--Tianjin, 24 Sep (XINHUA)--According to the National Coal Supply Production and Technical Research Forum recently held in Tianjin, it is necessary to change the coal supply method to conserve coal. The new method will blend coal that contains a large quantity of heat with coal that contains a small quantity of heat and process it into a new kind of coal. [Beijing XINHUA Domestic Service Chinese 0029 GMT 24 Sep 81 OW]

PETROLEUM SOCIETY MEETING--Changsha, 28 Sep (XINHUA)--The Chian Petroleum Society held its second annual meeting in Changsha from 16 to 22 September. More than 400 scientists and technicians from the Ministries of Petroleum Industry, Geology, and Chemical Industry; the Chinese Academy of Sciences; various institutions of higher learning and PLA departments concerned were present. Society President Hou Xianglin, who is also vice minister of the petroleum industry and member of the scientific council of the PRC academy of sciences, presided over the meeting. The participants took note of the petroleum industry's temporary difficulties caused by production slumps at the country's several major oilfields. However, they pointed out that it is still possible for the country still to maintain an annual oil output of 100 million dun by tapping the old oilfields' potentials and developing new petroleum outcroppings where there has been an oil reserve. [Beijing XINHUA Domestic Service in Chinese 0036 GMT 28 Sep 81 OW]

OIL, GAS FINDS--NCNA--Beijing 24 Sep--Chinese marine geologists have completed a petroleum geological survey over an area of 1 million square kilometers of coastal waters during which they discovered six major oil and gas depressions, greatly expanding China's marine petroleum and gas reserves. These six big oil and gas depressions are the Bohai Depression, the South Yellow Sea Depression, the East China Sea Depression, the Pearl River Estuary Depression in the South China Sea, the Beibuwan Depression and the Yingge Depression. [Text] [Beijing RENMIN RIBAO in Chinese 25 Sep 81 p 1]

CSO: 4006/24

INDUSTRY

SHANGHAI TEXTILE INDUSTRY URGED TO INCREASE PRODUCTION

Beijing RENMIN RIBAO in Chinese 27 Aug 81 p 1

[Article: "Strengthen Political and Ideological Work, Carry out System of Economic Responsibility, Reform Products and Technology; Accelerate Speed of Development of Shanghai's Textile Industry; Shanghai Textile Bureau Mobilizes All Employees to Make More Contributions to Elimination of All Difficulties and Pursuit of Increased Production and Income"]

[Text] Reporter Wu Fumin [0702 1788 3046] reports: Strengthening political and ideological work, carrying out the system of economic responsibility and product improvement and technological reform are three important measures recently issued by the Shanghai Textile Bureau to accelerate development. They mobilized 450,000 employees in the system to eliminate all difficulties, guarantee completion of the year's output of 14 billion yuan, an increase of over 900 million yuan over last year; and the part of profits turned over to the state of 3 billion yuan, an increase of nearly 2 billion yuan over last year.

Since 1977 the rate of growth of Shanghai's textile industry has been over 10 percent for 4 years in succession and in the first 7 months of this year the industry has completed over 8.05 billion yuan gross value of industrial production, an increase of 5.5 percent over the same period last year and has reached a state of saturation in terms of time, space, equipment and manpower.

When summarizing the work of the first 7 months, the bureau's Party committee analyzed the national situation and was dissatisfied with the rate already achieved. They felt that in the period of national economic readjustment, for the nation to accumulate forces requires a certain rate; improving the people's standard of living also required a certain rate. Whatever the difficulties of Shanghai's textile industry, it should use all means to increase their rate. The bureau's leadership sent down to the factories asking for help, invited the factory cadres for a conference and together with the subordinate industrial companies and offices within the bureau they settled accounts one by one. From investigation and study they found measures to accelerate the rate of development.

Raising the rate of attendance is a breakthrough in strengthening ideological and political work. In the first half of this year, absenteeism was 2.7 percent higher than for the same period last year and the rate of attendance was only 89 percent. The bureau leadership feels that strengthening ideological and political work now requires that we take the clearcut stance of supporting healthy trends and attacking

perverse trends and not accommodate ourselves to backward consciousness among some employees. The bureau Party committee clearly demanded that factories mobilize those employees who absent themselves so their children can work to subordinate their personal interests to the interests of the nation and return to work at an early date. They also stipulated that employees will not be permitted to request leave to take care of personal enterprises. Those who have stayed away from work for a long time without good reason, after discussion by the plant employees organization, may lose their seniority or be dropped from the plant. The bureau commended advancement in a big way, propagandizing the idea "every person has a share of responsibility for the resurgence of the motherland" and maintain vigorous enthusiasm of employee ranks to gradually increase the rate of attendance.

Another important part of strengthening ideological and political work is to smash selfish departmentalism and complacency and to organize activity to emulate, learn from, catch up with, and help others. The Shanghai woollen industry has 10 worsted mills of which the efficiency of the third and sixth woollen mills is above 90 percent, but that of the deficient mills is only 78 percent. If all of the bureau's mills achieved the level of the advanced mills it would increase the annual output of worsted woollens by 330,000 square meters. The difference between the highest and the lowest costs of the 10 major commodities of the cotton textile industry is 11 percent, if the deficient mills reached the levels of the advanced mills it would uncover a potential of 5 percent - 6 percent. Under the prodding of the bureau and the companies, activity to "learn from the advanced, find disparities and compare contributions" has already been started systematically.

In the process of carrying out the system of economic responsibility, the Shanghai Textile Bureau has also discovered new problems. Some mills in grasping production have "thoughts about the future" and once they have reached a certain speed, "hold back a trick or two." Through investigation, the bureau's Party committee decided to in adopting methods to change rewards within the bureau to encourage enterprises to go all out to increase production, the more they surpassed the more they get to resolve everyone's "thoughts about the future." The bureau's Party committee also decided that through comparison and assessment according to the 6 norms for rectifying enterprises which were stipulated by the State Economic Council, to classify enterprises and carry out a method of no ceiling on bonuses for advanced enterprises, the more they worked the more they got. For the few enterprises which were poorly managed, they could consider reducing or not awarding bonuses.

The three measures for accelerating the speed of development proposed by the Shanghai Textile Bureau are to improve product reform and technological reform, to change shipping commodities to the interior into shipping technology and through reducing domestic sales release energies for expanding exports; to improve commodity escalating foreign exchange and create even more high quality and high price goods; make way for popular goods which fraternal provinces and cities can already produce and open up the territory for new varieties with Shanghai's characteristics, constantly develop new woven goods; vigorously expand the clothing industry and increase economic benefits.

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CSO: 4006/498

INDUSTRY

BRIEFS

HUBEI INDUSTRIAL OUTPUT—Wuhan, 11 Sep (XINHUA)—Last year, the total industrial output of Hubei Province's prefectures and counties rose 15.2 percent over 1979. Their total industrial output in the first 7 months of this year again rose 10.6 percent over the same period in 1980. [OW141431 Beijing XINHUA Domestic Service in Chinese 0212 GMT 11 Sep 81 OW]

GANSU INDUSTRIAL-COMMUNICATIONS CONFERENCE—The Gansu Provincial People's Government recently sponsored a work conference of the industrial and communications front to devise ways to popularize economic responsibility systems and advance production in the last quarter and early next year. To this end, the conference put forward the following five tasks: 1) continuous efforts should be made to grasp well production of light industrial and consumer goods; 2) continuous attention should be paid to readjusting heavy industrial production in an effort to serve others; 3) a good job should be done in organizing transport facilities; 4) the fulfillment of the annual profit plan should be ensured; and 5) a good job should be done to make good arrangements for 1982 production plans. [SK271110 Lanzhou Gansu Provincial Service in Mandarin 1125 GMT 26 Sep 81 SK]

CSO: 4006/8

CONSTRUCTION

BRIEFS

SHANGHAI HOUSING CONSTRUCTION--The Shanghai municipal work conference on rural construction sponsored by the municipal capital construction and agriculture commissions ended on 16 September. The conference is the first of its kind in the municipality. In the past 4 years an average of 5 million square meters of housing was built in the rural areas every year. The figure is expected to reach 8 million square meters in the next few years. [OW211305 Shanghai City Service in Mandarin 1130 GMT 16 Sep 81]

LIAONING RESIDENTIAL CONSTRUCTION--In the January-September period, total floor space of housing under construction in 12 municipalities and prefectures in Liaoning Province came to some 8 million square meters, an increase of 80,000 square meters over the corresponding 1980 period. Floor space of housing completed and utilized reached some 2 million square meters. The floor space of housing completed in 1980 was 30 percent more than in 1979, surpassing total construction for 1976, 1977 and 1978. This is the third best record in our country. [Shenyang Liaoning Provincial Service in Mandarin 1100 GMT 26 Sep 81 SK]

CSO: 4006/8

FOREIGN TRADE

COUNTY FOREIGN TRADE COMPANY DOING WELL

Shanxi SHANXI RIBAO in Chinese 17 Aug 81 p 1

[Article by Xiang Zhao [0686 3564], Zhi Feng [1807 1496], Jian Hua [1696 5478], Zhi Xin [1807 0207], and Wan Quan [5502 3123]: "Yuncheng County Agricultural-Industrial-Commercial Foreign Trade Company Is Doing Well")

[Text] The Yunchen County Agricultural-industrial-commercial foreign trade company formed by state-operated, collective, and individual enterprises has earned 910,000 yuan in foreign exchange for the state and a net income of 250,000 yuan over the past 6 months.

The foreign trade company was established in the second half of last December. Some 260,000 yuan were raised as capital. The former county state-operated foreign trade processing plant put all of its fixed assets into the company as share capital, accounting for one-third of the total amount of money for shares in the company. One-third of the remaining money for shares in the company came from the scattered funds raised from among commune members and individual laborers. Each share was valued at 100 yuan and dividends were paid based on the amount of shares held. Of the total amount of profits, 55 percent was paid out as dividends based on the number of shares, 30 percent was set aside for enterprises, and 15 percent was taken as labor insurance fees and bonuses for workers. Of the 103 workers, 11 are state employees, and the others are rural commune members and urban youths waiting for jobs.

The export company has four plants whose main lines are to slaughter and freeze the meat of cattle, horses, donkeys, and mules released from service; to process and freeze sparrows; and to deliver goods of the state grain and oil export corporation to the port of Tianjin. The plants have also developed processing of scores of types of goods such as leather shoes, fur linings, and fur bedding.

Half a year's practice has demonstrated the good points of this export company: 1) The superiority of each side is brought into play to the advantage of the state, the collective and the individual. With the expansion of the operation of the export company's processing plants, the problems of funds, land, equipment, and manpower are solved. The processing plants, which previously lost money over the years, are now making great contributions to the state. Production teams have utilized their equipment capacity that had long remained idle. With

part of the commune members working with enterprises, an outlet is opened for absorbing the manpower made surplus with the introduction of the responsibility system. Scattered amounts of cash not required by individuals for immediate use are pooled and put into constructive undertakings, giving them material benefits. Recently, the company paid half-year dividends of 10 yuan per share in advance, totalling 26,000 yuan. 2) Animal products are put to multipurpose use, thereby turning waste into treasure. In the past, cattle eyes, bladders, donkey tongues, and donkey hearts were thrown away as waste. Now, they are used for multiple purposes. By processing these wastes into industrial and pharmaceutical materials, income is increased. This item alone generated a net income of 40,000 yuan in the first half year, of which 10 percent was set aside and paid to the customers. 3) A group of commune-brigade enterprises have been revived. Dongliu brigade's precast slab plant was shut down because its products found no market. After joining in the combined operations, the company provided the plant with funds and raw materials and underwrote the sale of its products, with the result that the plant earned a net income of 70,000 yuan in half a year.

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CSO: 4006/491

LABOR AND WAGES

FRAUD, CORRUPTION IN PRODUCING 'WELFARE PRODUCTS' DESCRIBED

Shanghai WENHUI BAO in Chinese 24 Aug 81 p 1

[Article: "Four Harmful Effects of 'Welfare Products'"]

[Text] So-called "welfare products" turned out by plants and enterprises have brought on quite a few evil effects, severely affecting the use of state raw and processed materials and the arrangement of production plans, lashing at normal commercial affairs, scooping state revenues, and lending themselves to evil practices. This should be taken seriously and rectified immediately. Such is the conclusion drawn by the municipal finance bureau from a large amount of data after making an overall investigation.

On 29 June and 22 July, WENHUI BAO published letters from readers criticizing the "welfare products." Leading comrades of the municipal people's government took a serious view of this matter and instructed the departments concerned to make investigations. The municipal finance bureau has wound up its investigation and sent an investigation report to the municipal people's government. The Shanghai trade union council is going on with the investigation.

According to the municipal finance bureau's report, so-called "welfare products" are extensive in scope and are increasing in variety. Among these products are table fans, floor electric fans, folding deck chairs, standing desk lamps, wall lamps, sofas, television sets, furniture, high-grade candy, etc. Some plants are contemplating the production of washing machines. According to incomplete figures, 49 units under the Bureau of Metallurgical Industry, the Electromechanical Bureau No 1, the Electromechanical Bureau No 2, the Shipbuilding Bureau, and the Navigation Office have turned out 41,276 electric fans (the vast majority being floor electric fans), 3,318 deck chairs, 3,000 wall lamps, 280 standing table lamps, in addition to sofas, television sets, etc. Some units under the instruments and metals, textile, light industry and pharmaceutical industry organizations have turned out such products. Some scientific research units, schools, shops, etc have also produced so-called "welfare products."

Citing massive data, the investigation report analyzes the grave situation arising from the practice of fraud and the encroachment on state interests in the process of producing and handling so-called "welfare products."

In the name of "caring for the life of its workers," during the spring festival this year the Shanghai Soda Water Plant packed 30,454 jin of six kinds of high- and medium-quality toffees--Chocolate (market price 3.10 yuan per jin), Swan (2.30 yuan per jin), Xilinmen (2.15 yuan per jin), Kelimu (2.62 yuan per jin), Kuaile Taifei (1.90 yuan per jin), and Huasheng Niuya (1.55 yuan per jin)--into 2,734 5-jin boxes and 8,392 2-jin boxes. Practicing fraud they put on labels saying "101 (low-grade) assorted toffees." They then sold the candy at 0.833 yuan (lower than cost) to the Guanshengyuan Confectionary Shop. They asked the shop to supply the plant workers and other cooperating units with candy at 1.05 yuan per box against red and blue "candy purchase coupons" issued by the Shanghai Soda Water Plant. Five jin were supplied against each red coupon and 2 jin against each blue coupon. Each of the plant workers was given one red coupon and two blue coupons. Some cooperating units also got some "candy purchase coupons." This amount of candy scooped 27,000 yuan from state revenues.

The Shanghai Optical Instruments Plant, which lacked production orders last year, was assigned by the higher leading department to produce 5,000 double-duty floor fans. The bureau arranged the allocation of materials to the plant, the bank gave the plant a loan, and the finance department allowed the plant a 1-year tax deduction. However, the plant, breaking up the whole into parts, transformed state planned products into "welfare products," transferred more than 3,000 fans not yet fitted with parts elsewhere, and "sold" the fans to the Huamei Lamps and Lanterns Shop in Luwan ward under the label "floor lamps to be disposed of." Arrangements were made for the plant trade union to issue 3,130 coupons (60 were issued to Huamei), against which purchases could be made at a price about 100 yuan lower than the market retail price. Calculated on the basis of 3,130 fans, the state would lose tax and profit receipts amounting to 300,000 yuan.

The municipal finance bureau has found from its investigation that the "welfare products" turned out by some units have brought on a chain of undesirable consequences: 1) State interests are encroached upon. Calculated on the basis of 50,000 "welfare electric fans" produced in the municipality, each causing a loss of 70 yuan in tax and profit to the state, the total amount of losses would come to 3.5 million yuan. 2) The party is defamed and social values are corrupted. When handling "welfare products," quite a few enterprises, learning the "art of building relations," gave "welfare products" to various units to cultivate "friendship." In this way, state funds flowed into the hands of small groups and individuals through these loopholes. 3) The unity of workers is undermined. When distributing "welfare products," certain leading cadres and economic office personnel, being in a favored position, picked the big and took more, thereby giving rise to contradictions between cadres and the masses and among the masses and undermining their unity. 4) Violations of law and discipline are induced. Some plants producing "welfare products" kept separate books and followed incomplete procedures. Items moving in and out were not recorded and book entries were thrown into confusion. This opened the door to corruption, embezzlement and violation of law and discipline.

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CSO: 4006/491

LABOR AND WAGES

BRIEFS

GUANGZHOU LABOR, EMPLOYMENT CONFERENCE--The Guangzhou municipal labor and employment work conference, which lasted for 3 days, concluded on 28 August. The conference summed up the experience in making arrangements for employment in the first half of this year and studied how to do a good job of promoting labor and employment in the second half. The conference noted that organizing labor service companies is a relatively good way of making arrangements for employment in the future. They cost little to operate but can provide a great deal of employment. The conference also noted the great achievements scored in labor and employment work this year because of the flexible policy adopted. In the first 6 months, the municipality has arranged jobs for more than 48,500 people awaiting employment, fulfilling 52.7 percent of the annual task. The proportion of youths among people engaged in individual business undertakings has increased from 5 percent when the business undertakings were first initiated in 1979 to its present 46.3 percent. [HK161242 Guangzhou Guangdong Provincial Service in Mandarin 1000 (MT 28 Aug 81 HK)]

CSO: 4006/8

TRANSPORTATION

BRIEFS

RAILWAY TRANSPORT REGULATIONS—Beijing, 23 Sep (XINHUA)—A set of new regulations governing railway freight transportation will be adopted beginning 1 October this year. With these 55-provision regulations, which will replace the 1971 regulations, the railway departments will be able to serve various economic departments according to economic law and under better administration as the new regulations clearly stipulate the rights and obligations of the consignors and the consignees as well as their economic responsibilities. [Beijing XINHUA Domestic Service in Chinese 1528 GMT 23 Sep 81 OW]

RAILWAY QUARANTINE—Taiyuan, 24 Sep (XINHUA)—China's railway quarantine network has developed from a regional into a national one as more quarantine stations have been set up in most provinces, municipalities and autonomous regions in the country and more quarantine officers have been trained. This has enhanced effective control of the spreading of livestock disease from one place to another, promoted development of animal husbandry and developed foreign trade. During the 10th annual convention on railway quarantine, which ended in Taiyuan, Shanxi, on 23 September, experimental measures governing the scope of quarantine by the railway veterinarians were adopted. [Beijing XINHUA Domestic Service in Chinese 1530 GMT 24 Sep 81 OW]

CSO: 4006/8

GENERAL

STATE COUNCIL SETS UP TWO ECONOMIC RESEARCH CENTERS

Beijing GUANGMING RIBAO in Chinese 30 Aug 81 p 1

[From our reporter Xie Jun [6200 6511]: "State Council Sets Up Two Research Centers to Recruit Specialists"]

[Text] Following the establishment of the Economic Research Center in August last year, the State Council set up a Technological and Economic Research Center not long ago. A group of specialists in social science and natural science and with a knowledge of the overall economic situation have entered Zhongnanhai to serve as consultants on the economic development of our country.

The mission of the Economic Research Center is to concentrate on studying realistic problems of strategic, comprehensive and long-range significance by integrating theory with practice. The main task of the Technological and Economic Research Center is to conduct, from the standpoint of the overall economic situation, a feasibility study of the important technological and economic measures and construction projects handed down for discussion.

Over the past year, the Economic Research Center has held many discussions on the restructuring of the systems of labor, banking, taxation, pricing, and finance, and has put forward various plans and schemes. Centered on the growth of the national economy and the problem of overcoming the present economic difficulties, the center made a monographic study and put forward diverse measures and proposals for development: production of consumer goods, reorganizing the enterprises, improving foreign trade policy, and cutting down commercial floating capital. The proposals put forward by the Economic Research Center have received great attention from leading comrades of the Central Committee and quite a few of the proposals have been accepted.

Recently the Technological and Economic Research Center convened specialists in railways, communications, electric power, geology, environment, and economics to take the initial steps to expound and prove a report by a vice premier on the exploitation of Shanxi's coal resources. After making a careful analysis and study, the specialists subscribed to the idea advanced by the vice premier. At the same time, they put forward some views and proposals concerning the scope and policy of exploiting Shanxi's coal resources.

Among those joining these two research centers are social science and natural science workers from scores of research units of the China Academy of Sciences, the China Academy of Social Sciences, and the central ministries and commissions. The Economic Research Center and the Technological and Economic Research Center have set up their own standing secretariats responsible for leading and organizing the activities of both research centers. The two standing secretariats are respectively under the charge of Xue Muqiao (5641 2550 2890), adviser to the State Planning Commission and director of the State Planning Commission Economic Research Institute, and Ma Hong (7456 3163), vice president of the China Academy of Social Sciences.

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CSO: 4006/491

GENERAL

SONODA ON IMPORTANCE OF FREE ECONOMY TO PRC

OW220035 Tokyo KYODO in English 0018 GMT 22 Sep 81

[Text] New York, 21 Sep (KYODO)—Foreign Minister Sunao Sonoda said here Monday that Japan, the United States and Europe must cooperate in bringing the Chinese economy into the mechanism of the free economy.

Sonoda said Japan is not disappointed with the fact that the "Japan-China economy" has not expanded by leaps and bounds.

Speaking at a luncheon meeting of the Japan Society in New York, the foreign minister said China should not be looked at as a market now. Rather, he added, China should be regarded as whether it is together with the United States from the viewpoint of strategic importance.

He stressed that it is important for China's economy to be incorporated into the mechanism of the free economy and that Japan, the United States and Europe must cooperate for that purpose.

Sonoda said the lowering of level of balance of power is important for the maintenance of perpetual peace and stability. He emphasized the need for nations to strive for disarmament and arms reduction.

Sonoda said solidarity and cooperation with the United States is the "most important cornerstone" of Japan's foreign policy. He said the Soviet Union's increase in military power and advance in the Third World have raised tension in East-West relations and cast dark clouds on world peace.

Sonoda said the economic stagnation has lowered the comprehensive power of the Western world, and obstructed the economic growth of the Third World. The foreign minister said Japan will continue to try to have dialogue with nations with which it has different interests. He said it is also important for Western nations to cooperate with the Third World. He said Japan will also promote dialogue between North and South and extend economic cooperation.

Sonoda said he hoped in his meeting with Soviet Foreign Minister Andrey Gromyko Wednesday to find a clue to the opening of dialogue with the Soviet Union, keeping in mind that Japan's basic policy is to seek return of the northern territories.

CSO: 4020/5

GENERAL

QINGDAO WORKS OUT DETAILS OF ECONOMIC RESPONSIBILITY SYSTEM

Shandong DAZHONG RIBAO in Chinese 23 Aug 81 p 1

[Article by Chang Fengchen [2490 7364 5256] and Cui Sulan [1508 4790 5695]: "The Relations Between Three Sides Are Correctly Handled by Qingdao Enterprises"]

[Text] Correctly handling the relations between the state, enterprises and individuals and firmly implementing the economic responsibility system, the industrial and communications enterprises in Qingdao municipality have achieved the results of more revenue for the state, more profits retained by enterprises, and more income for individuals. Industrial production reached a record level in June and achieved good results in July after beating the intense heat of summer.

This year, Qingdao municipality has put into practice the system of economic responsibility among industrial and commercial enterprises by making various industries underwrite profits and arranging for various bureaus, factories and enterprises to sign contracts to underwrite profits. But the protracted influence of the "left" ideology produced a number of problems in the distribution of wage bonuses within enterprises, hindering further implementation of the responsibility system. For example, some enterprises could not draw a dividing line between indiscriminate distribution of wage bonuses and distribution according to work, not daring to let those workers making a greater contribution get larger bonuses. In solving this problem, leading comrades of the municipal committee and government and the responsible persons of the economic committee, finance committee and labor department went to enterprises to investigate and study. They summed up four manifestations of indiscriminate distribution of wage bonuses, and drew a distinction between indiscriminate distribution according to work. After that, on the basis of proposals from cadres and the masses, a system of "contracting production with remuneration linked to output" as the main form was put into practice. So far, 61 enterprises in the municipality have put into practice the system of "contracting production with remuneration linked to output." Among them, 55 state-operated enterprises projected profits accounting for 54.7 percent of the total amount projected by state-operated municipal enterprises. In implementing the economic responsibility system, they took special care to solve the three following problems:

1. Correct handling of relations between the three sides and guarantee of more revenues for the state, more profit retention for enterprises, and more income for the workers. In drawing up measures for contracting production, they began by working out different measures according to the characteristics of different enter-

prises. There are three measures: 1) In the case of enterprises making large profits, profits are taken as the keypoint of contracting production. In this way, profits are closely linked to the immediate interests of enterprises and their workers, and more income will be made for enterprises and individuals on the basis of guaranteeing increased revenues for the state. For example, the Qingdao Dyestuff Plant underwrites 11 million yuan in profits against a state projection of 8 million yuan for the current year. If the plant reaches the target underwritten, each of its workers can draw 180 yuan in above-target wages. If profits top the target by an additional 1 percent, each worker can draw 1.80 yuan in additional above-target wages. If the plant fails to fulfill the profit plan, for each 1 percent unfulfilled, 0.5 percent of total wages will be withheld. 2) When the quality of products is guaranteed, output is taken as the keypoint of contracting production to encourage the workers to produce more. The Qingdao Watch Factory contracts production with output as the keypoint. Under the terms of the contract, if the factory fulfills the plan for 900,000 watches, each worker can draw above-target wages amounting to 90 yuan. If output is between 900,000 and 1,250,000 watches, for each additional watch made, an additional above-target wage amounting to 90 cents will be issued. If output exceeds 1,250,000 watches, for each additional watch made, an additional 1 yuan will be issued. 3) Production is contracted on the basis of calculating taxes and profits. The Qingdao Cigarette Factory contracts production. Under the terms of the contract, the factory is to reach the target of 175 million yuan in taxes and profits. After the target is reached, each worker can draw above-target wages amounting to 170 yuan. For each 17.5 million yuan generated in taxes and profits, each worker may draw an additional 17 yuan. These three measures unify the interests of the three sides, guaranteeing more revenues for the state in the first place.

2. All the contracting enterprises have put into practice different forms of economic responsibility system internally to overcome egalitarianism and bring the positive factors into play. Previously, the Qingdao Printing and Dyeing Mill calculated bonuses according to points, "eating partly from the big pot." After contracting production, the mill stopped "eating partly from the big pot," and introduced three-level accounting, linked remuneration to output, checked output at the group level and held individuals responsible for their work. Under this system of responsibility the workers can see how much contribution each meter of cloth makes to the state and how much income each worker gets. Furthermore, corresponding responsibility systems have been instituted for various working procedures and cadres of various service departments and offices. As a result, the whole mill is seething with activity. July output was up 8.6 percent over June and profits were up 19 percent.

3. In the light of reality and taking into account the degrees of profit-making possibilities and the irrational state of product price, tax receipt and profit, the problem of preponderant difference between above-target wages issued by different enterprises to their workers who perform more or less the same magnitude of labor is solved. In implementing the responsibility system of contracting production with remuneration linked to output, the municipal committee and government heard the views of the masses, thoroughly weighed the relationship between the magnitude of above-target labor and the above-target wages, and initially solved the problem in diverse ways. For example, in the case of those enterprises which have small margins but pay heavy taxes, taxes and profits are calculated together; in the case

of those enterprises that contribute more but make less profits, the proportion of above-target wages is appropriately increased so as to bring them into line with the wages issued by the enterprises in general. Soda ash, the main line of the Qingdao Chemical Fertilizer Plant, is a product with a small margin. The state has not set any profit target for the plant this year. After introduction of the economic responsibility system--contracting production with remuneration linked to output--each worker can draw 180 yuan in above-target wages when 1 million yuan profits are made. This will satisfactorily resolve the contradiction between a larger contribution and less remuneration in the case of enterprises that make less profits. The Qingdao Tonghai Rubber Factory makes large profits, and the contract stipulates that after fulfilling the above-target profits underwritten, each of its workers may also draw 180 yuan in above-target wages, but this is only equivalent to 10.6 percent of the above-target profits realized.

When remuneration was linked to output and one's heart, contracting production worked. The economic responsibility system implemented by Qingdao industrial and communications enterprises has smashed the iron rice-bowl and removed the big pot. The results of an enterprise's operation are directly linked to the economic interests of the workers. Cadres and workers concern themselves with their enterprises and production, and industries and communications are becoming more prosperous every day.

9780

CSO: 4006/490

GENERAL

DEPARTMENTS URGED TO ENCOURAGE INDIVIDUAL COMMERCE

Jian DAZHONG RIBAO in Chinese 27 Aug 81 p 3

[Article by Liu Zuoqing [0491 4373 3237]: "Questions Related to the Development of Individual Commerce"]

[Text] The present level of productive forces in our country determines the necessity of letting diversified sectors of the economy exist side by side. The state-operated economy is the main body and leading force on the market, but it is not possible for it to purchase all of the several hundred thousand and even several million kinds of products produced by the material production departments in society to satisfy the diverse demands of the broad masses of the people. Therefore, despite the fact that the quantity of products handled by the state-operated commerce is large, the variety of products handled and the scope of services performed are, after all, still limited. At the same time, the state-operated commerce suffers from certain limitations of time and space. Individual commercial enterprises, including the catering trade, service trades, and repair and spare parts shops, can make up the deficiencies of state-operated commerce. The individual commercial enterprises, which mainly carry on manual operations with a small amount of capital and for small margins, are so flexible and adaptable that they can change the direction of service any time in accordance with changes in market supply and demand. In their case, business hours may be extended or shortened according to business conditions. As to localities of business, individual commercial enterprises may make do with whatever is available. Shelters may be converted into shop fronts, stalls may be set up and wares hawked in the streets. Many fresh foods can hardly be handled by large stores and many types of manual repairs and darning which are beyond the capacity of state-operated repair trades, which are comparatively mechanized, can be handled by self-employed laborers and individual producers. Thus, in making good omissions and deficiencies, individual commerce is indispensable to the socioeconomic life. Furthermore, individual commercial enterprises which absorb a large number of unoccupied laborers provide an avenue for solving the employment problem for youths awaiting jobs.

By the end of April 1981, the number of individual commercial enterprises reached 1,520. Although their growth rate has not been fast enough, they have initially demonstrated their role as a force not to be ignored. Difficulties in getting catering service, clothing and repair service are beginning to diminish. Some famous dishes are gradually being brought back, and many "neglected lines" in repair trades are appearing and increasing in number. But even so, they are still

far from the objective requirements of society. In 1957 the number of individual commercial enterprises averaged 18, occupying 700 square meters of floorspace per 1,000 residents, but by the end of 1980 the number of such enterprises was only 3, occupying 330 square meters of floorspace per 1,000 residents. This shows that viewed from the actual requirements of society as a whole, individual commerce should be further developed.

There are many reasons why the development of individual commercial enterprises has been adversely affected. For one thing, individual commercial enterprises have long been accorded a low social status. As a result of the left ideological influence, some people look down upon the individual economy as a capitalist undertaking, and because of this they consciously or unconsciously view it in a different light. Individual industrialists and businessmen themselves are not at ease, and their children tend to do everything to prevent them from starting up individual enterprises lest it should jeopardize their chance of going to school, finding jobs and lest they be marked. In short, public opinion has not yet given the green light to individual commercial enterprises.

Second, another problem worthy of attention is that too much interference comes from certain departments. There is not a unified system of administration. Anyone who wants to start a business must go through a number of departments and links, often taking several months from the time of sending in an application to the time of obtaining approval from the commercial department, industrial-commercial department, urban planning department and, in some cases, from the public security department. After the start of business, some departments will impose more restrictions, withhold aid, indiscriminately interfere and even ban the business.

Third, failure to insure the source of goods directly affects the vitality of individual commerce. For example, no practical and feasible measures have been worked out to provide goods under state control such as aluminum plates, soldering tin, and tinplates required by the repair trades. Owing to lack of coordination and connection between the bureau level and the wholesale departments, it frequently happens that the repair trades are unable to obtain spares and fittings such as bicycle parts, needles and thread, buttons, shoe nails, etc.

Fourth, state-operated enterprises, collective enterprises and individual enterprises are not yet treated equally in terms of political status and economic remuneration. Although the principle has been laid down as far as the central authorities are concerned and although employment obtained through recommendation by the labor department, employment obtained by getting organized, and employment obtained through one's own efforts are all regarded as employment, the gaps between them are wide in the real world. Individual enterprises are far behind collective enterprises, not to mention state-operated enterprises.

Below are some proposals made to the departments concerned for their reference concerning the development of individual commercial enterprises.

First, go a step further and mold public opinion in favor of individual commerce and propagate the importance of diversified channels of circulation as well as their position and role in the economic growth. In particular, it is necessary to get rid of the incorrect views on individual economy, to imbibe the spirit of the

current policy of employment, to set minds free, to go all out, to open all avenues, and to pursue concrete policies to aid the growth of individuals commerce.

Second, strengthen leadership and unify the administration. The individual economy is characterized by dispersion, great flexibility, and fewer limitations of time and space in operation. It creates favorable conditions not provided by state-operated enterprises. But it also brings with it drawbacks: scattered operation making it difficult to manage, profit-making aim making it difficult to guarantee commodity quality, and possibilities of practicing fraud and evading taxes. This makes it necessary to strengthen leadership and unify administration with regard to the aim, direction, location and means of operations. But the principle of management should be "control without stifling, stimulate without throwing into confusion." The following tendencies should be avoided: As soon as stress is laid on management, all departments advance simultaneously and control it to such an extent as to stifle it. Or any slight rectification and stimulation will throw it into confusion. We maintain that laws should be made with the object of unifying administration. Provided a business license is issued by the industrial-commercial bureau and the consolidated tax or administrative fees have been paid, these certificates and documents should take legal effect at once, and no one may interfere arbitrarily.

Third, delegate some authority to the lower level. Judging by the tendency of development, the individual economy will go on developing and individual commercial enterprises will continue to increase. At present, they are stocked with goods from grade-2 wholesale units. The amount of funds involved is small, as is the quantity of stocks laid down piecemeal. This situation gives great trouble to grade-2 wholesale units. Is it advisable to consider delegating wholesale authority to the ward level so as to make it convenient for small business to replenish stocks while minimizing the trouble to which grade-2 wholesale units are put? Or can arrangements be made under which purchasers are entitled to wholesale price or a price approximate to wholesale price if the purchase exceeds a certain quantity? This will make it convenient to replenish stocks and promote sales, which in turn will accelerate the circulation of commodities.

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GENERAL

ARTICLE DECRIES RELIANCE ON 'IRON RICEBOWLISM'

Guangzhou YANGHENG WANBAO in Chinese 16 Aug 81 p 2

[Article by Chu Ruigene [0328 3843 5087]: "On 'Rice Bowls'"]

[Text] It is said that some foreign scientists and technicians working at sites in our country are diligently studying in their dormitories during after work hours, delaying sleep. When our reception personnel urge them not to work so hard, the answer they receive is "That won't do, if we do not understand the latest knowledge in our fields, we won't be able to keep up and our bosses will fire us, breaking our ricebowls. It is not like China with its superior socialist safeguards where one will not be unemployed due to incompetence or dereliction of duty!"

The foreign scientists and technicians still "study diligently, delaying sleep" in their after work hours and our reception personnel still urge them "not to work so hard." You can see that this causes me to lose my appetite a little. To continue with a look at the first half of the foreigners' reply, it seems two things can be said: In addition to the private sector employment system being too cruel, if one does not diligently study new knowledge, then the enterprise or factory will lag behind times and the company boss' own "ricebowls" would also be "broken" and how could he possibly insure the "ricebowls" of those below him! The problem is seen in the following words: "It is not like China with its superior socialist safeguards where one will not be unemployed due to incompetence or dereliction of duty!" It shows clearly in their words, it seems to be praise (many of us Chinese love to hear these words) when actually it sounds to me more like a slap in the face.

Ha! "with superior socialist safeguards where one will not be unemployed due to incompetence or dereliction of duty"--this links socialism with the "iron ricebowls"! The foreigners are not really talking nonsense. Our current lifestyle is just so.

To be sure, "socialism" has many superior characteristics, otherwise people would not cherish it and a lot of people with lofty ideals would not sacrifice for it. Nevertheless, this superiority lies in a system of destroying man's exploitation of man. The leaders pushed themselves onward diligently creating material and spiritual wealth. And yet it absolutely does not lie in entering a socialist society and carrying an "iron ricebowl." "Incompetence" and "unemployment" notwithstanding, this ricebowl cannot, in the end, be lost.

However, over the past several years, our perception of socialism has actually been connected with the "iron ricebowls" and the maddening thing is that it depends on this. You see, clearly written upon the banner of socialist distribution principles the words: "From each according to his ability, to each according to his work," and "More pay for more work, he who does not work does not eat." The "does not eat" is the broken "ricebowl." For a considerable time, there has not been particular mention of "More pay for more work" and even less mention of "He who does not work does not eat." Thus, "From each according to his ability, to each according to his work" also seems to be nothing more than empty words.

Does the "iron ricebowl" have any supporters? Some, they are sluggards, those who do not strive to make progress, bureaucrats. The problem is in the reliance on this "iron ricebowlism," which is no different than the development of the flourishing mouth. The laborers' hands degenerate, socialism loses its abundant material base, it then exists in name only. At this level, our lesson is extremely profound.

I think that 80 percent of those who urge others "not to work so hard" are incapable of working that "hard" themselves. Today's Chinese who work diligently around the clock and quietly immerse themselves in hard work are not in the minority. However, there actually are those few people who not only do not "work hard," but also urge others not to "work hard," and some even take those who do "work hard" as fools! The reason these people do not "work hard" is that they find joy in their own way, and in addition to an awareness problem, objectively speaking, one big reason, is that they are given an "iron ricebowl" to carry.

It is said that in recent years, some foreign specialists, who have come to assist us in our industrial construction, place extreme emphasis on the system of a scheduled vacation at home. In addition to a reunion with family, the even more urgent objective of their vacations is to take an opportunity to understand and grasp the latest domestic and international scientific and technical achievements in their fields and keep abreast of the latest methods in order to avoid stagnation of their knowledge and lagging behind technically or even breaking their ricebowls. With these foreign scientists and technicians working so diligently and with their spirit of constantly improving, it is no wonder that it is not deeply pondered by those comrades who carry the "iron ricebowls" or "go by the sure fishing boat."

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GENERAL

EMERGENCE OF NATIONALIST CAPITALIST INDUSTRIES LINED

Nanjing XINHUA RIBAO in Chinese 14 Aug 81 p 3

[Article by Wang Ke [3769 0668]: "The Emergence of China's Modern National Capitalist Industry"]

[Text] The seeds of capitalism were laid very early in the protracted period of the development of feudal society in China. China would have gradually entered into a capitalist society even without the invasion of foreign capitalism. Starting in 1840, foreign capitalism invaded China on a large scale which has changed the course of capitalist development in China. As a result, China progressively lapsed into a semi-colonial, semi-feudal society.

The first group of modern industries to emerge in China were not established by the Chinese people, but by the foreign capitalist aggressors. Following the Opium War, the foreign capitalists, aside from launching an all-out effort to promote sales of their industrial products in China and plundering local products and specialities, ignored the sovereignty of China by presumptuously investing in manufacturing facilities. These plants were mainly for ship repairing and various processing industries. The former was to suit the needs of the development of the shipping industry in China (foreign steamships would need inspection and repair on their arrivals), and the latter to suit the need of processing raw materials and local products and specialities pillaged from China. For instance, in order to rob eggs, they first had to process them into egg powder and then to ship the powdered eggs out. For this reason, they established powdered egg plants. According to statistics, from 1843 through 1894, some 100 plants of various sizes including ship repairing, brick tea, silk reeling, sugar refining, egg powder manufacturing, cotton ginning, printing, packing, match, cigarette, ironware, and so forth were established by foreign capitalists.

Modern industries operated by the Chinese themselves started some 10 years later than that of the foreigners. The first modern industries set up by the Chinese people were not civilian industries operated by private individuals, but the armament industry operated by the government. In the course of putting down the Taiping Revolution, the feudal overlords, witnessing the devastating effectiveness of Western weapons, spent funds from the state treasury to set up modern arsenals mainly for the purpose of fighting against people's uprisings. The first arsenal, the "Anqing Armament Plant," was set up in 1861 by Zeng Guofan in Anqing. From then to 1894, a total of around 20 arsenals were established by the

government of the Qing Dynasty, of which the Jiangnan Manufacturing Bureau in Shanghai, the Tianjin Machinery Bureau in Tianjin and the Fuzhou Shipyard in Fuzhou were comparatively larger in scale. In Nanjing, we also had a Jinling Manufacturing Bureau. With the initiation of the armament industry, it was necessary to develop such supporting industries as mining, smelteries and transportation. At the same time, more capital was needed. Therefore, high-ranking bureaucrats of the Qing government established some industries for civil use and absorbed some capital from the private sector. As a result, modern civilian industries either operated directly by the government, or "supervised by the government and run by merchants," or jointly operated by the government and merchants emerged. In 1872, Li Hongzhang set up the China Merchants Steam Navigation Company which was operated directly by the government under the arrangement of "government supervisory, merchant operated." At the initial stage, government shares of this company totaled 1.9 million taels, while that from private sectors totaled 0.73 million taels. According to statistics, up to 1894, there were a total of 30 civilian enterprises either operated by the government, or supervised by the government and undertaken by merchants, or jointly operated by the government and merchants.

China's national capitalist enterprises did not come into being until 1872. It is generally felt that China's first modern national capitalist enterprise was the Jichanglong [4949 2490 7127] Silk Reeling Plant in Nanhai, Guangdong. It was a plant operated by an overseas Chinese who returned to China to make this investment after he had seen silk reeling plants abroad operated by foreigners were very lucrative. Another enterprise, the Fachang [4099 2490] Machinery Works in Shanghai started to utilize machinery earlier than 1873. In 1878, another mechanized flour mill, the Yilaimou [6318 0171 3664] Flour Mill owned by our own nationalist capital emerged in Tianjin. In the 1870's, plants set up with China's nationalist capital totaled about 20 in number and that number increased gradually in the 1880's. Up to 1894, there were more than 70 plants including such industries as silk reeling, cotton ginning, cotton textiles, flour, match, paper, printing, mining, public utilities, and so forth.

As far as China's national capitalist enterprises are concerned, not only did they come late as compared with plants set up by foreign capitalists as well as those established by the Qing government, their financial strength was also smaller. For instance, the Johnson Shipyard invested by foreign investors had a capital of 800,000 taels, the Jackson Shipyard had a capital of 750,000 taels, while the Baochang [1405 2490] Silk Mill had 800,000 taels. The capital of the China Merchants Steam Navigation Company which was supervised by the government and run by merchants was more than 2.5 million taels and that of the Shanghai Weaving Bureau came to nearly 0.7 million taels. The capital of each national capitalist enterprise was generally less than 100,000 taels. The biggest single investment among them was only around 200,000 taels.

The plants set up in China with foreign capital were supported by the influence of the foreign capitalist aggressors and that operated by the government or jointly operated by the government and merchants were supported by the feudal influence in China. However, plants operated by China's nationalist capital were inhibited by both of these influences. To compare 1894 with the year of 1864, the net value of foreign goods imported into China increased 4 times, which became the most serious

obstacle to the development of our nationalist industries. Moreover, foreign capitalist enterprises relied on special political privileges, powerful financial strength and advanced skills to directly compete with China's nationalist industries. Many of our plants financed by nationalist capital were forced to close down under the competition of foreign products and foreign plants. The Chinese feudal bureaucrats utilized their political power and influence to monopolize various industries and to inhibit the development of the national capitalist enterprises. While Li Hongzhang set up the Shanghai Weaving Bureau, he presented a memorial to the throne requesting the emperor to cut taxes and grant 10-year patent right so that "within the next 10 years only the Chinese merchants are allowed to add shares to the Bureau and no new bureaus will be permitted to establish."

Aside from the fact that the national capitalist enterprises were suppressed by both foreign capitalism and domestic feudalism, they, on the other hand, also relied on both of them. Investors of some national capitalist enterprises were compradors themselves. These enterprises also had to purchase machineries and certain raw materials and engage technicians from abroad. Some enterprises were even indebted to foreign banks. Still other investors of some of these nationalist industries were themselves bureaucrats or landlords. They requested the Qing government for support and to cut taxes. China's national capitalist industries found it hard to develop without relying on foreign capitalism and domestic feudalism.

China's modern national capitalist industry was on the one hand oppressed by foreign capitalism and hampered by domestic feudalism, and on the other hand it did not cease its link with both foreign capitalism and domestic feudalism but on the contrary relied on them to develop. This dual nature was manifested at the very beginning of the emergence of China's modern national capitalist industry.

9560

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GENERAL

WEIHAI PROMOTES CONSTRUCTION OF RURAL TOWNS

Jinan DAZHONG RIBAO in Chinese 22 Aug 81 p 1

[Article by Ning Yunjiu [1337 6663 0036] and Jiang Shiting [1203 0013 1694]:
"Weihai Municipality Achieves Remarkable Successes in Strengthening Construction
of Rural Towns"]

[Text] Remarkable successes have been achieved by Weihai Municipality in carrying out programs to integrate the city with villages for promoting progress in the rural areas, actively developing commune and brigade enterprises and strengthening construction of rural towns.

In Weihai Municipality, agricultural population accounts for 80 percent of the total population of the municipality. Each farmer has an average of 0.77 fen of cropland. In order to open up a new path for carrying out construction, the city party committee has since 1970 suggested that the superior features of the comparatively more flexible human, financial and material resources in the collective economy should be brought into full play and enterprises under collective ownership should be vigorously developed. In order to accelerate the rate of urban industrial development, solve the problem of the shortage of industrial workers in the city, and at the same time prevent the city from over-expanding, the city party committee has spread the experience gained by the First Carpet Plant in integrating workers with peasants and the city with rural areas, and in diversifying products in rural areas to promote the development of commune and brigade industries. In 1975, when responsible comrades of the provincial party committee conducted an investigation in Weihai Municipality, they affirmed this experience. They pointed out that it is the right approach to engage in urban-rural as well as worker-peasant integration and to diversify products. It is necessary to build the seats of communes into small towns. With the support of the higher authorities, the city party committee has strengthened its confidence and set up a Commune Industrial Bureau to organize various communes to do a good job in planning the construction work of rural towns. Since then, commune and brigade industries as well as the construction of small rural towns have taken on a new aspect. Especially since the 3rd Plenary Session of the 11th CCP Central Committee, the pace of the construction work of 6 towns of the municipality and the rate of development of enterprises operated by communes have been greatly accelerated. In 1976, the output value of commune industries in the whole municipality reached 8.73 million yuan and profits reached 1.97 million yuan which increased 87.8 and 51.1 percent respectively compared with that of the previous

year. In 1977, the output value reached 16.12 million yuan and profits 3.35 million yuan, an increase of 84.7 and 70.3 percent respectively compared with that of the previous year. In 1980, the output value of commune industries of the whole municipality reached a new high of 27.72 million yuan and profits reached 4.51 million yuan, an increase of 10 and 24.1 percent respectively compared with that of 1979.

Since the program for developing commune and brigade industries was put forward in 1970, Weihai Municipality has undergone three different stages from initial probing to planning to construction. The development of commune and brigade industries enabled 6 rural suburban communes of the whole municipality to accumulate large funds for the construction of rural towns. New enterprises have been set up one after another. Factory buildings, buildings for accommodating sales departments and administrative units as well as dormitories also have been completed. These towns have gradually become political, economic and cultural centers in rural areas and thereby serve as links and bridges between Weihai municipality and the rural areas. According to incomplete statistics, investment made by various communes of the whole municipality for town construction totaled more than 20 million yuan. The investment made in each town averaged 3 million yuan. At present, more than 70 industrial enterprises have been set up in these towns by communes only recently aside from such units as supply and marketing cooperatives, banking offices, credit cooperatives, tax bureaus and grain bureaus which have already been there. Among the industrial enterprises, there are 56 factories, 6 communication and transportation stations and 6 engineering contractors. There are also 41 service industries including 6 sales departments, 13 restaurants, 4 hotels, 6 photo studios and 6 barbershops. The collective income of these industries and services totals 37.52 million yuan, with an average of 5.36 million yuan going to each commune. At the same time, the number of cultural and entertainment facilities also have gradually increased. There are now 6 cultural centers, 5 libraries (study rooms), 2 movie theatres and 5 middle schools in 6 towns.

Owing to the fact that the construction of rural towns is based on the enterprises operated by communes, it has given an enormous impetus to the city industries. In 1980, the aggregate value of industrial output of the whole municipality reached over 360 million yuan which increased 4.5 times compared with that of 1970. At the same time, it has helped to reduce expenditure and increase revenue of the state and thereby preventing the city from heading toward lopsided overdevelopment. At present, commune and brigade plants in rural areas of the municipality as a whole have more than 8,400 people doing processing work for city industries as "staff members working outside of the plants." These people amount to 60 percent of the existing permanent working force in the city itself. In 1980, commune and brigade enterprises centered at rural towns paid 1.57 million yuan in taxes directly to the state. Furthermore, the development of industries centered around rural towns has brought about a booming rural economy and promoted rural construction. At present, in rural areas all over the municipality, each brigade has an average of 4 enterprise projects. Since 1975, more than 15,000 houses have been completed which account for 35 percent of the total number of households in rural areas. The total construction area is 720,000 square meters and each individual farmer has an average area of 4.4 square meters. The rise of rural towns has helped to make things convenient for the masses and liven up the rural economy.

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GENERAL

FOREIGN INFLUENCES NOTED IN SOCIALIST MODERNIZATION

Guangzhou YANGCHENG WANBAO in Chinese 12 Aug 81 p 2

[Article by Liao Jianxiang [1675 1696 4382]: "A Bold Exploration of the New Relaxation of Restrictions on Things Foreign"]

[Text] The Party Central Committee has decided to implement special policies and take flexible measures in the two provinces, Guangdong and Fujian. This was a great economic policy decision following the Central Committee's Third Plenary Session. The practice in the two provinces during the last 2 years shows that the implementation of this decision has not only brought about obvious results in the economic development of the two provinces, but has also created new experiences and explored new approaches to economic system reform and development of our socialist economic construction. It holds very great significance.

The meaning of the special policies and flexible measures can now be summarized as the three "relaxations," i.e. the relaxation of policies directed abroad, the relaxation of domestic restrictions and the relaxation of authority over the lower echelons. The one outstanding point among them is the even greater relaxation on things foreign.

Speaking from the viewpoint of socialist economic construction this relaxation on things foreign is a sweeping reform. From the viewpoint of economic development, this relaxation is a developing country following a modern strategic choice and an important policy. If this work is to be carried out well, we must continue to liberalize ideas, improve awareness, and give emphasis to summarizing historical experiences.

During the past 2 years, the Province of Guangdong has accumulated some significant experiences in running a pilot special economic zone and in the implementation of the special policies and flexible measures, and has discovered some new problems to be solved. We must experiment boldly, advance steadily and seek a new approach.

1. The relationship between special policies of the two provinces and the overall national situation should be handled properly. Guangdong's relaxation on things foreign must be truly "special," truly "flexible," and truly "advanced" properly to solve the problems of domestic policy relaxation and broadening of local authority. Otherwise, they will be neither "special" nor "flexible." In this

instance, the problem of the relationship between the overall national situation and the local areas must be handled well. The "special" policies are to create experiences for Guangdong Province in order to give impetus to the entire nation. Of course, the special policy cannot have an unfavorable impression on the overall situation. For example, economic development plans and foreign trade export programs should be under the direction of a unified national plan and, with the provinces as the dominant factor, the pieces put together giving local levels their rightful sovereignty. Of course, export trade should be integrated under one set of foreign policies to avoid giving foreign businesses an advantage. We cannot force prices down domestically or else the profits will flow out of the country. Full play should also be given to local enthusiasm in commodity flow, however, it should serve the unified national plan. Exports outside the plan should be handled by the province alone. Past experience has shown that regulating things to death and reining in too tightly with various procedures affects the implementation of special procedures and is a great problem which must be solved conscientiously.

2. Utilize favorable local conditions to select the form of economic and technical cooperation. Currently, several methods using foreign capital in the development of economic and technical cooperation have been adopted. Such methods as finished product processing, compensatory trade, joint venture, and joint production have shown obvious results. We still must very carefully summarize the experiences of how to take local conditions and characteristics into consideration when selecting from the different projects the one which will be the most favorable to the development of the enterprise and most favorable to both sides in achieving equanimity and mutual benefit. In some cooperative projects, once put into operation, raw materials, power, transportation, and sales all flow normally and production expands to the benefit of both sides. However, in some projects, problems of raw materials, wages, capital interest, profit splits, equipment compensation, etc. are not properly resolved creating abnormal production, unequal profits, and few material benefits. In the future, emphasis should be given to summarizing these experiences and solving this problem.

3. The construction of the special economic zone must be done well. In 2 years of construction on a special economic zone, great achievements were realized and we initially tried to gain experience. For instance, the comprehensive special economic zone in Shenzhen established various businesses in industry, trade, agriculture, livestock, housing, and tourism; the Zhuhai special economic zone takes tourism as its primary industry; and the city of Shantou will use foreign capital to rebuild old businesses and develop a special economic zone which relies on export processing, tourism, and other industries. These situations all comply with the theory of implementing plans in line with local conditions and the principle of striving for substantial results. The urgent problems currently requiring solutions are: How do you enact the total social, economic development plan for each of the special zones? How can the construction of basic installations be hastened to solve the problems of power, water supply, communications, factory buildings, roads and transportation in order to provide various services and facilities for economic development? How can various preferential policies be enacted to attract the capital of foreign investors and draw in technology? How to enact economic legislation and regulations on labor, contracts, insurance, customs, tax revenue, etc. relevant to the special zones? How to revise swiftly the tedious entry and exit procedures for the zones to achieve a simplified procedure, improving efficiency and making entry and exit from the zones convenient? Currently there

are over 350 different kinds of special economic zones in the world (including the socialist nations of Yugoslavia and Romania, the wealthy capitalist nations of the Netherlands and the United States, and the developing countries, Singapore, Pakistan, and others). All of these nations have gone through the work of constructing special economic zones. Our special economic zones are a place to come into contact with foreign entrepreneurs. It is also the best place for foreign business circles to observe our special policies and flexible measures. Foreign investors will display their economic management experiences in the special economic zones. We must try to find new approaches and experiences here.

4. We must improve research in international economic and technical information and international markets. Our socialist economic construction will be gradually closer to the changing relationships of the international economy. We have the necessary research organizations to assemble international economic/technical information and gradually to establish specialists and a strong computer retrieval system. We can grasp international economic trends, develop markets, and make economic forecasts to provide the basis for foreign economic activities allowing us to take the initiative in such activities facilitating even greater achievements.

We already have an excellent beginning in relaxing the restrictions of the strategic measures for the economic development of the socialist modernization and the victorious prospects are inspiring.

9795

CSO: 4006/481

GENERAL

CAUSES OF POLAND'S ECONOMIC PROBLEMS ANALYZED

Kunming JINGJI WENTI TANSUO [INQUIRY INTO ECONOMIC PROBLEMS] in Chinese No 3, 81 pp 75-79

[Article by Xu Guihua [1776 2710 5478]: "An Analysis of the Economy of Poland"]

[Text] The strike which swept over all of Poland in July 1980 attracted great attention throughout the world. This incident had a significant political and economic background as well as deep historical roots. Here let us analyze its economic causes.

Same Old Stumbling Block

This strike was touched off by the Polish Government's decision to raise meat prices.

Everyone who is familiar with conditions in Poland knows that several labor disputes in Poland in the past were attributed to the increase in commodity prices, mainly the prices of foodstuffs and meat. In the mid-1950's--or, to be exact, in 1956--as we recall, the Polish Government, then confronted with economic difficulties, adopted measures to restrict consumption and raise commodity prices. This resulted in the Poznan incident. In December 1970, the Polish Council of Ministers again decided to raise the prices of 46 types of foodstuffs and daily necessities, thus increasing the cost of living of each household by 20 percent. On the day following the announcement of the price hikes, the workers at the Gdansk Shipyard started a strike which later spread to Gdynia, Sopot, and Szczecin. In June 1976, the Polish Government again announced an increase in the retail prices of certain commodities (mainly foodstuffs) by an average of 39 percent. The price of meat was increased 70 percent. News of the price hike led to another strike which threatened to engulf the whole country. Sensing trouble, the government rescinded its decree 24 hours after the announcement, and the price hike was declared null and void. The situation then calmed down. The [strike] in July 1980 was already the fourth general strike. Why is the question of price hikes--for foodstuffs and meat in particular--so delicate and sensitive in Poland? Why should the Polish leaders continue to hit the same old stumbling block? These questions should be carefully analyzed and explored.

For a long time there has been a scarcity of consumer goods in the Polish market, while price fluctuations and currency inflation have now assumed serious dimensions. In recent years, the decline in production caused a shortage of supplies accompanied

by price hikes and currency inflation. This has added to the people's discontent. According to statistics, the Polish people spend on meat and foodstuffs 50 percent of their total expenditures for daily consumer goods. Therefore, an increase in the prices of foodstuffs and meat is not only a matter of concern for the households but also has a strong impact on the broad masses. The contradictions on this score are as a rule particularly serious. In the case of meat, for example, the contradiction between supply and demand in recent years has been intensified, we may say, to an intolerable extent. The latest price hike was a 60-percent increase for more than 20 kinds of meat. There was neither previous consultation with the masses nor any attempt to explain to them the difficulties. Therefore, the announcement of the price hike was like the igniting of an explosive, and it was followed by a sudden outburst of the people's long-suppressed anger. As a West German weekly journal put it, "The workers were indignant when the increase in meat prices was announced by the government. Now the indignation has been transformed into action, and this is no surprise at all."

Polish Government leaders have tried to ease the tense economic situation by reforming the economic system. Since the relationship between economic readjustment and economic reform was not handled well, the shortage of supplies in the market became even more serious. Since the beginning of 1973, Poland has begun to reform its economic system and to practice the so-called "new economic system," the main purpose of which has been to decentralize and delegate more power to the lower levels. However, instead of treating economic readjustment as an urgent task in dealing with the various national economic imbalances, the Polish authorities promoted the so-called "new economic system" as their foremost concern. This resulted in new chaos in the national economy. As a U.S. scholar said: "Instead of easing economic tension, the reform was frustrated by this tension."

To ease the contradictions, the Polish Government has often adopted the method of freezing prices and raising wages. Thus, every upheaval has been followed by a substantial wage increase. From 1950 to 1955, there was an average annual increase of 4 percent; from 1956 to 1957, it sharply increased 20 percent. Similarly, from 1960 to 1970 the average annual wage was increased by 1.8 percent, and from 1971 to 1972 it again sharply increased 22 percent. As an article in the British quarterly journal SOVIET STUDIES said: "Increasing wages for political reasons not only makes the market more unbalanced (because of currency inflation), but also creates difficulties for economic reform," because "a double logic (of winning popularity and showing an appreciation of value) on the question of distribution can bring economic reform to a standstill." This shows that liberal promises and substantial wage increases will in the long run increase economic difficulties and exert greater pressure on the market. This will lead to another cycle of intensified contradictions.

Decline of the "Granary of Europe"

In November 1979 a Hungarian research worker, comparing Hungary with Poland, said: "Agricultural development is of very great significance. For several years we have overcome various difficulties without too much effort, for the important reason that our market supply is good. Poland is different. Instead of solving any problems, price hikes have on two separate occasions caused great trouble. Meat prices have been raised three times in our country without bringing about any important political change. Therefore, agricultural development is a very important political issue."

These words are very significant and to the point. In Poland, many labor disputes have been caused by meat and foodstuff price hikes, for the important reason that the market supply has not been under control. In the final analysis, the failure of agricultural development is the root cause.

Poland originally was an agricultural country. In view of its favorable conditions for the development of agriculture and animal husbandry and its rich agricultural regions, people commonly called it the "granary of Europe." However, because of its economic policies and its entire economic structure, agriculture there is still very backward, compared with not only the developed capitalist countries but also with the [other] East European countries. The "granary of Europe" of the past is now in a decline.

Since the abolition of cooperatives (approximately 90 percent of the total number) by Gomulka in 1956, agriculture in Poland has been dependent on dispersed and narrow individual farming households. By 1978, according to statistics, only 23.3 percent of the farmland was publicly owned; the remaining 86.7 percent belonged to individuals. In other words, more than three quarters of the farmland belongs to individual peasants. The ratio of individual economy in cattleraising and livestock production is even higher. In 1978, 85 percent of the pigs, 74 percent of the oxen, 89 percent of the milk cows, and more than 97 percent of the horses were owned by individual peasants. Individual farming households produced 65 percent of the meat, more than 85 percent of the milk and some 92 percent of the eggs. The public sector of the economy in Poland's agriculture is not only small but also inefficient. The state invests heavily in the public economic sector, but there is also serious waste. On the whole, its business results are not as good as those of private farming households. According to statistics, the average amount of fodder and fertilizer used by state farms is two and a half times higher than that used by individual peasants. A Polish journal has said: "If the amount of grain used to produce 1 kilogram of meat by the public sector of agriculture were the same as that used by individual peasants, we could have more than 2 million tons of grain, worth 300 million dollars, each year." Yet individual farming is now on a gradual decline because of its extreme decentralization. According to a news report, since "the majority of young people are not interested in their parents' farms" nowadays, many crops are grown "in an idyllic way by old people of 70 with grey hair. This is far behind the use of modern harvesting tools in efficiency."

Within the agricultural sector, the serious effects of an imbalance between farming and animal husbandry has caused livestock prices to soar. In the past 10 years, the price of livestock procurement was raised by 120 percent, but even by 1978, meat prices had been frozen at the same level throughout the years. Thus the state had to spend a huge amount on subsidies. In 1978, an average of 34.4 zlotys was granted for each kilogram of meat sold. The total subsidy of 91.4 billion zlotys each year was equivalent to 11.2 percent of the workers' wages. In 1980, the total subsidy for meat and other staple food amounted to 200 billion zlotys; this subsidy alone accounted for 20 percent of the government's budgeted expenditures. This is quite a heavy burden for the government. To reduce this burden and ease financial tensions, a price hike was the only way out. This was exactly the cause of the price hike in July 1980.

Shadow of "Economic Synchronization"

Apart from its extremely backward agriculture, one of the causes of the shortage of market supplies in Poland has been the "economic synchronization" of CEMA, with the Soviet Union as the overlord, which casts a dark shadow over the Polish economy. Under this dark shadow, Poland had to unilaterally strive for the development of heavy industry, mainly the processing industry, at the expense of raw materials, fuel, power and other basic industries, and the light and food industries required for domestic consumption. This "economic synchronization" consolidated Poland's irrational economic structure (or the so-called heavy structure) and thus landed Poland in a predicament from which it could not extricate itself.

According to the requirements of "economic synchronization" and specialization, Poland, as a member nation of CEMA, is charged with the responsibility of producing ships, railroad cars, construction machinery, roadbuilding machinery, textile machinery, lathes, selected items of the electric and electronic industries, and complete sets of equipment for sulphuric acid plants, sugar refineries, and paper-mills, in addition to elements and parts to be used for the production of motor vehicles. Such is the duty of a CEMA member, and every effort must be made to ensure the development of these processing industries in order to meet export requirements. Thus the production of all light industrial goods urgently needed at home were simply discarded. This was one of the important causes of the short supply of daily consumer goods in the home market.

Poland's exports to the Soviet Union consist mainly of various types of finished goods and food. It is true that there has been a certain development in Poland's food industry in recent years, but the market supply situation has not been correspondingly improved, simply because, in the Polish people's own words, these products are "taken away" by the Soviet people. A press report from Moscow said: "Polish consumers will be very unhappy if they know that, while many items of food can rarely be seen in Polish stores, the stores are full of food items produced in Poland." In August 1980, the Yugoslav news agency dispatched a report from Warsaw saying: "Meat is now very scarce in Poland. Actually, it is more scarce now than ever, because Poland has to keep its miserably low stock for donation to the Olympic event to be held in Moscow. The long lines of prospective customers before the meat stores, which has been a common sight, have become longer than ever."

Fact has shown that the dark shadow of "economic synchronization" over Poland has intensified the lopsided development of Poland's industry and industrial structure and has subjected its market supply to double pressure: On the one hand, its light and food industries, which should be capable of meeting domestic needs, are far from adequate for the continually growing social demand; on the other hand, it must further curtail its already short supplies for domestic consumption in order to meet export requirements--mainly the requirements of the Soviet Big Brother--failing which, domestic production can hardly be maintained. The West German DIE WELT said in a news report: "Should the supply of oil from the Soviet Union be discontinued, the wheels of Poland will grind to a stop." This should be a good lesson for us: A country should abandon the policy of shutting itself behind closed doors and should actively participate in the international division of work, so as to bring into play its own economic strongpoints and at the same time strengthen and develop its international economic contacts. However, it must also uphold the principle of independence and self-reliance, assert its own sovereignty, and hold

the initiative of economic development in its own hands. Otherwise, it will bring untold misery to the state and the nation.

Results of "New Economic Strategy"

"Ice 3 feet in depth cannot be the result of one cold day," goes an old saying. The recent strike in Poland and the economic difficulties now confronting it are the inevitable outcome of the so-called "new economic strategy" carried out over the past 10 years.

In the early 1970's, the strategy of social economic development, also called the "new economic strategy," introduced by Gierek called for the "realization of a second industrialization" and the "rebuilding of Poland" in the 1970's. Accordingly, he put forward the "three highs" policy, meaning high speed, high wages, and high fringe benefits, as a means of "safeguarding high-speed national economic development, suitable improvement of the people's living conditions, and marked improvement of social production."

In the first half of the 1970's, the "new economic strategy" did produce certain good results. For example, from 1971 to 1975 the per capita national income of Poland increased by 9.8 percent annually. The generally high rate of increase gave rise to a "speedy parallel increase of wages and investment rarely seen." However, this fine situation did not last long. In the second half of the 1970's, there was a sharp drop in production. Some large-scale readjustment had to be made in investment, and the actual increases in wages became almost negligible. By 1979, the national income did not increase at all, and compared with the previous year, there was even a 2-percent reduction. Investment was reduced by 8.2 percent, while actual wages increased by only 1.8 percent. The so-called "three highs" had already vanished into thin air. As proved in practice over the past 10 years, the "new economic strategy" has ended in failure.

First, this "strategy" was based on large foreign loans. In February 1970, Gierek, who had been in office barely 2 months, proposed the so-called "active loan policy" before the Eighth Plenum of the Fifth Central Committee of the Polish United Workers Party and advocated large-scale borrowing from foreign countries. In 1970, Poland had 800 million dollars in foreign debts; by 1979 the amount had sharply increased to 19.4 billion dollars, and then to more than 20 billions in 1980. According to present announcements, it has already exceeded 23 billion dollars. It is generally agreed that the foreign debts of a country will reach the "dangerous limit" if the total amount of capital to be repaid, along with the interest, exceeds 25 percent of its total volume of exports or its total foreign exchange earnings. In 1979, Poland had to spend 4.1 billion dollars to repay its foreign debts plus interest. This amount was equivalent to 56 percent of its income in hard currency from exports to the West, and was far beyond the "dangerous limit." In 1980, the amount of debts and interest paid was 8 billion dollars, or equivalent to 130 percent of the total volume of exports to capitalist countries. From this we can see that Poland's foreign debts have far exceeded its capability for repayment.

Secondly, the "policy of active importation of technology patents" was actually a rash action taken on the spur of the moment and was inconsistent with the actual situation. This grandiose scheme brought about grave consequences. To carry out

the strategy of "high-speed economic development," Poland formulated a "policy of active importation of technology patents" in 1971. As soon as this policy was adopted, all departments, including some plants and enterprises, joined the scramble for imports, regardless of their actual needs or their capability to repay. From 1971 to 1976, according to statistics, Poland imported from the West more than 280 large projects and some 400 technology patents, altogether costing more than 26 billion dollars. The scope, quantity, and expenditures involved were appalling. First, because of the limited technological force, construction capability, basic installations, and ability to undertake auxiliary projects at home, the construction period for these new projects had to be prolonged a great deal. The construction period for 60 percent of these imported projects was more than 3 years, and some of them became "bottomless holes" for investment. Secondly, because of ignorance of the general situation and technical conditions, many items were imported blindly. Thus, one-third of the imported technology patents were simply shelved instead of being put to use. In the chemical industry departments, 30 percent of the patented equipment could not be used because of wrong choices at the time of purchase. Thirdly, approximately one-third of the imported projects depend on the import of raw materials for production. Because of the continued increase in raw material prices on the world market and the lack of assurance of raw material supplies, a number of newly built plants and enterprises had to stop operation. Furthermore, approximately one-quarter of these projects either could not start operation or failed to acquire their originally designed productive capacity because of inadequate power supply or transportation difficulties. Fourthly, for various reasons, the majority of imported equipment or patents were originally not quite up-to-date, and after several years of construction their competitive power had greatly diminished by the time they were ready for operation. Of the imported-patent products, according to statistics, only 10-14 percent were up to the world standard, and there were very few "commodities that could maintain their foothold on the market."

Moreover, the so-called "speedy parallel increase" of high accumulation and high consumption has led to overall national economic tensions and serious disproportions. From 1956 to 1970, according to statistics, the rate of accumulation was consistently kept at 19.5 to 26 percent, and from 1971 to 1975 the average annual accumulation rate was as high as 37.5 percent. In the same period, the average annual increase in consumption was 9.2 percent, while social welfare funds were increased a great deal to provide free medical care for all the people. The peasants also began to enjoy the benefits of a retirement system. All these commitments were beyond Poland's national economic capacity and further aggravated the already disproportionate relationship.

The "Poverty" of Political Economy

An article in the Japanese SENTAKU [SELECTION] No 10, 1980, pointed out: "Frankly speaking, the problems now uncovered in Poland are neither purely political nor purely economic but are problems of socialist political economy, which is a close combination of the two. According to Marx, they are created by the 'poverty of political economy'." This shows a keen insight. There has long been a common saying in Eastern Europe that Poland has good economists but not a good economy. The reason is that the Polish Government does not regard economic theories highly and fails to apply Marxist socialist theories of political economy to guide domestic

construction. Nor does it respect the objective laws of socialist economy, and even less does it follow objective economic laws. That was how it continued to repeat errors in practice and found itself in economic difficulties.

Recently, Poland's new leader, Kania, expressed his intention to ponder the experiences of the past 10 years and to draw lessons from them, so as to "ensure that a repetition of the same errors that led to the present crisis will never happen." At the same time, he adopted a series of measures to solve the immediate problems. This is certainly fine. We hope he can truly draw lessons from past mistakes, carry out thorough economic and political reforms (that is, the practice of economic and political democracy), and then gain better prospects for economic development.

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GENERAL

BRIEFS

LIAONING SMUGGLING CASES--In the January-August period, the Dalian customs office, Liaoning Province, cracked 470 smuggling cases and confiscated contraband goods worth over 510,000 yuan. Some 79 cases involve illegal business transactions among enterprises' staff and workers inside and outside the province. [SK241040 Shenyang Liaoning Provincial Service in Mandarin 1100 GMT 22 Sep 81 SK]

CSO: 4006/8

INDUSTRY

OFFICIALS REVIEW STATUS OF BAOSHAN STEEL COMPLEX

OW270412 Hong Kong AFP in English 2328 GMT 26 Sep 81

[Article by Charles-Antoine de Nerchat]

[Text] Baoshan, Eastern China, 27 Sep (AFP)--An additional sum of more than one billion dollars will have to be invested in the gigantic Baoshan steel complex near Shanghai before it can begin functioning, a construction official said.

Nearly three years after building work started on the complex, the officials in charge remain uncertain about when production will start.

One high construction official at Baoshan indicated yesterday that two billion yuan (1.17 billion dollars) would be needed to complete the first phase of this big Sino-Japanese economic cooperation project including construction of a blooming mill, a blast furnace and electric power plant.

The official, Fang Hesheng, said that since construction began in December 1978 with a big contribution of Japanese capital, two billion yuan had been spent. This covered only 40 percent of the first phase of the project, 25 kilometers (15 miles) north of the big port of Shanghai.

Plans for a second phase, including additional rolling mills and another blast furnace, appear to have been practically abandoned. It was to be built with the aid of American, Japanese and West German capital.

"Technically, we should be able to complete the first phase two or three years after the original target date of 1982," said Mr Fang. But he added that he was not able to specify when this work would be finished.

"That will depend mainly on the investment that is made and the conditions of the current readjustment of the Chinese economy," he told newsmen.

A tentative agreement has just been concluded between China and Japan for Japanese loans totaling 1.3 billion dollars. In exchange, China agreed to continue economic cooperation projects between the countries that were threatened with cancellation, including Baoshan, the biggest project.

But the means of putting the agreement into effect have not been set. Mr Fang underscored that he did not know how much of the loans would be devoted to Baoshan.

But he affirmed that the electricity generating station would be finished during the second quarter of next year and that funds for this have already been allocated. It will be able to produce more current than needed by the steel complex alone.

The official rejected criticisms that have been made about this controversial project, especially concerning its site on marshy ground near the mouth of the Changjiang, China's longest river.

Those in charge are relatively vague concerning the conditions under which the construction is being done by some 60,000 workers. Newsmen visiting the building site spread over 12 square kilometers (4.55 square miles) saw only a very limited number of workers.

"There is much work going on at certain times, but less at other moments," Mr Fang commented. "It is difficult to specify exactly how many workers are on the site now."

The original estimate on the overall cost of the two planned phases made by Nippon Steel Corporation was 5.5 billion dollars.

Preliminary studies were carried out in one year. At least three times as long should have been allowed for the studies, noted another construction official, Xu Bangding.

The men in charge now stressed that the 1982 date set for the start of steel output "was not realistic."

"If we receive funds next year we will carry on our work," Mr Xu added. But he said he was now confident that phase one would be completed.

CSO: 4020/8

TAIWAN SHIP SURVEYS SENKAKU UNDERWATER RESOURCES

OW280547 Naha OKINAWA TIMES in Japanese 28 Sep 81 Morning Edition p 1

[Text] It was disclosed on 27 September that, at a time when the development of seabed resources around the Senkaku islands is being disputed [by Japan, China and Taiwan], a Taiwan resources exploration ship, the "Wodeco," had anchored about 61 km west of Uotsuri Shima [Tiaoyutai in Chinese] of the Senkaku islands and surveyed seabed resources for approximately 1 month.

Since the Taiwan exploration ship had anchored about 5.5 km inside the Japanese side of the East China Sea from the center line between Japan and Taiwan, the Japanese Government requested Taiwan to withdraw the ship. However, the Taiwan side answered the request by dispatching a warship and military aircraft. This was confirmed by patrol boats of the 11th Regional Maritime Safety Headquarters.

According to investigations conducted by the 11th Regional Maritime Safety Headquarters, the "Wodeco" carried out exploration work together with two work boats, taking up moorings since about the middle of August. It went back to Taiwan temporarily when Typhoon No 18 drew near but returned to the area and resumed work on 3 September.

Although the "Wodeco's" location was not within Japan's territorial waters but in the open sea, it is international custom to regard the center line as the borderline when two neighboring countries cannot agree on their respective 200 nautical mile economic zones. However, when the Japanese Government asked that the Taiwan ship withdraw from the center line, the Taiwan side responded by dispatching a warship and two fighter aircraft.

Violations of territorial waters by Chinese and Taiwan fishing boats around the Senkaku islands have occurred in the past, but this was the first time that a warship and fighter planes were dispatched to support resource exploration.

The 11th Regional Maritime Safety Headquarters dispatched the 1,000-ton-class patrol boats "Yonaguni," "Motobu" and "Hateruma" to the area to watch the activities of the Taiwan exploration ship.

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